

103

THE INTER-AMERICAN DEVELOPMENT BANK

Y 4. B 22/1:103-137

The Inter-American Development Bank...

HEARING

BEFORE THE
SUBCOMMITTEE ON
INTERNATIONAL DEVELOPMENT, FINANCE, TRADE
AND MONETARY POLICY
OF THE
COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED THIRD CONGRESS
SECOND SESSION

APRIL 28, 1994

Printed for the use of the Committee on Banking, Finance and Urban Affairs

Serial No. 103-137



U.S. GOVERNMENT PRINTING OFFICE

78-648 CC

WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-047235-0

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THE INTER-AMERICAN DEVELOPMENT BANK

THURSDAY, APRIL 28, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE AND MONETARY POLICY,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:06 a.m., in room 2220 Rayburn House Office Building, Hon. Barney Frank [chairman of the subcommittee] presiding.

Present: Chairman Frank, Representatives Bereuter and Sanders.

Chairman FRANK. The hearing of the Subcommittee on International Development will come to order. We are here today to talk about the authorization for a replenishment for the Inter-American Development Bank's soft-loan window, and also for the general capital increase. We will be doing both on this one. We will follow our usual format. I thank all of the witnesses for coming.

I would just say, preliminarily, that a pattern developed last year with regard to the World Bank, whereby it became clear to me that our ability, as a subcommittee, to help get the necessary support for the increased contribution, in this case for the International Development Association, depended not legally but in fact on some movement at the Bank with regard to disclosure of information and also a review panel. I am pleased to hear that the Inter-American Development Bank is moving in those two directions. Because while, as I said, it is not within our purview legally to condition anything on anything, facts are facts. The presence or absence of such procedures and entities has an impact on how my colleagues work. The World Bank, of course, is furthest along.

We will be having a hearing in a little over a month, to monitor the progress that we have seen in regard to the World Bank. We do want to make it clear that, from our standpoint, it is very, very helpful for the Bank, for the regional multilateral banks, not simply to institute these policies but, in fact, to make sure that they are administered with the appropriate spirit. That is going to be a continuing concern of this subcommittee.

We will now turn to our panel. We will begin with Deputy Assistant Secretary of the Treasury, Ms. Levine, in a second.

Mr. Bereuter, do you have an opening statement?

Mr. BEREUTER. No. I am just very pleased we are holding these hearings. I think it is quite important that we conduct active oversight on the multilateral development banks. I am particularly interested in the IDB. So I look forward to the testimony.

Chairman FRANK. We will begin with Deputy Assistant Secretary of the Treasury Levine.

STATEMENT OF SUSAN B. LEVINE, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR THE INTERNATIONAL DEVELOPMENT, DEBT AND ENVIRONMENT POLICY

Ms. LEVINE. Mr. Chairman, we are requesting authorization for U.S. participation in the eighth replenishment of resources for the Inter-American Development Bank. We believe this replenishment agreement is important to the United States. Our country has long-standing economic and financial ties to Latin America and the Caribbean. It is in our national interest to renew the resources of the Inter-American Development Bank. The administration attaches a high priority to helping the countries of Latin America and the Caribbean sustain and broaden their economic recoveries. This is clearly reflected in the formulation of our fiscal year 1995 request for funding all of the multilateral development banks.

Over the next 3 years, new lending commitments to the region from these institutions are expected to reach roughly \$40 billion. From a foreign policy perspective, the replenishment agreement is important, because it promotes democracy and the concepts of shared prosperity and sustainable development. It sets the stage for the Summit of the Americas, which will take place later this year in Miami.

The agreement we have negotiated points the Inter-American Development Bank in new policy directions, and it does this at a very low budgetary cost to the U.S. taxpayer. The annual cost of our participation in the new replenishment is being cut almost in half, down from \$90 million per year in the last replenishment to about \$46 million per year this time. Our request includes \$153.6 million in paid-in capital, which will be spread over a 6-year period, as well as \$82.3 million for our contribution to the Fund for Special Operations [FSO], which will be spread over 4 years.

We are not requesting a separate authorization for the Bank's private sector affiliate, the Inter-American Investment Corp.

The agreement will provide the Bank with \$40 billion in new capital, bringing its total capitalization to more than \$100 billion by the end of the replenishment period. This will allow the Bank to continue lending at its current levels and provide room for moderate increases in the future. The replenishment of the FSO will provide \$1 billion in new concessional resources for the poorest countries in the region.

This is the first regional bank replenishment agreement that has been negotiated by the Clinton administration. In many respects, I believe it should serve as a model for agreements to be undertaken in other regional development banks.

In crafting this agreement, we wanted to accomplish three basic objectives: One, to put people first, to ensure that the benefits from Bank lending are shared broadly among all people in borrowing countries; two, to protect the environment, to improve the Bank's internal policies and procedures, and lend more for projects that benefit the environment; and, three, to reinforce the trend now underway in the region toward greater reliance on the private sector and market mechanisms.

In recent years, many Latin American and Caribbean economies have undergone profound change. In some countries, economic growth has been particularly robust. The role of this Bank is to ensure that this growth is sustained, and takes hold in other countries in the region. And, for growth to be sustained, the benefits must be shared more equitably. We look to markets to allocate resources most effectively; but markets by themselves will not ensure that prosperity is shared. The challenge for the region is for government to become a more constructive force promoting more inclusive growth.

To help expand economic opportunity in the region, the Bank will increase its lending for projects that directly affect the lives of people, especially those who are poor and disadvantaged. That is why lending to the social sectors is to increase from 25 percent of loan volume to 40 percent of loan volume, or 50 percent of total operations under the terms of this agreement.

With this agreement, financing will be provided for primary health care, through small clinics in rural areas and urban neighborhoods that previously have not been served; maternal and child health programs, incorporating immunization, nutrition, and family planning; basic education for primary and secondary school-aged children, particularly for girls; vocational training, including retraining for individuals who have lost jobs, and remedial education for those who have missed out on earlier opportunities; and good governance, including better land titling, more equitable tax structures, and judicial systems that really work.

We have also worked hard to get greater protection for the environment. This will help improve the lives of people throughout the region, not only the urban poor, but also people in rural areas, as well as indigenous people. In this regard, here is some of what we have accomplished. There is a clear commitment that the Bank will not finance commercial logging in tropical moist forest areas. This will help provide protection to important areas such as the Amazon Rain Forest. There will be an extension of the Bank's guidelines to cover the possible environmental effects in areas such as agriculture, transportation, and watershed management. There will be more lending for environmentally beneficial purposes, including projects for potable water and sewage and sanitation. There will be more emphasis on energy efficiency and conservation and the use of renewable energy resources. And there will be consultation with affected peoples and inclusion of resettlement issues in the Bank's environmental impact assessments.

Mr. Chairman, as you are aware, this administration has listened to calls for increasing public participation and assuring greater transparency and accountability in the multilateral development banks. In this replenishment, as you pointed out, we have obtained a commitment from management for a comprehensive information disclosure policy, along the lines of the one adopted by the World Bank. There is also agreement for the creation of an independent inspection function, which may include a panel of independent experts to investigate charges that the Bank has failed to correctly apply its own policies.

Under the new agreement, policy-based lending will be reduced from 25 percent to 15 percent of total lending. Many of the larger

countries in the region have been successful in using fast-disbursing, policy reform-oriented loans to make their economies more open and to reduce the debt burdens they have carried in the past. A large part of that work is complete, which is why we looked to lowering this type of lending.

Increases in investments and social services are only part of the new undertaking we have set out for the Bank. A significant increase in investment in modern infrastructure is also needed if the private sector is to thrive. The region's enormous needs for financing in these areas cannot be met by governments alone, even with input from the multilateral development banks. Private capital, both local and foreign, will be indispensable.

In a new departure for the Bank, up to 5 percent of its total lending will be made available for privately owned infrastructure and public utility projects. This lending will extend the financial reach of the Bank into areas where there is great need, and will not require government guarantees.

The agreement also aims to streamline the Bank's various private sector programs, including those of the Inter-American Investment Corp., and the Multilateral Investment Fund. We will continue to pursue alternatives that promote the expansion of microenterprise and the creation of new small businesses, without requiring new U.S. capital commitments.

Let me now turn to some of the financial aspects of the replenishment agreement. While we are reducing our own annual payments to the Bank, we have taken steps to broaden the participation of other countries. This will strengthen the Bank and assure that the flow of new capital into the region will continue.

Some of the new money will come from other countries in the region, but substantial resources will come from Europe and Japan. In return for these contributions, the Bank's regional members, including the United States, have agreed to a reduction in their membership shares. This will allow nonregional members to double their share. As a result of these and other changes, two new chairs will be created for the Bank's Board of Directors, increasing the Board from 12 chairs to 14. One of those chairs will be occupied by Japan, the other by Chile.

These changes in voting strength will lead to no real diminution of our role or influence in the Bank. Although our capital share of the IDB will decrease from 34.6 percent to 30 percent, we will maintain nearly all of our current rights and privileges. Our approval will thus be required for the Bank to make new FSO loans or adopt FSO policies, and our participation will continue to be critical for all meetings and votes of the Board of Governors.

This agreement marks a fundamental shift in the operations of the Bank. It begins to move the Bank in new directions. There will be more investments in projects that benefit more people of the region. The Bank will undertake new initiatives involving the private sector. It will become a more open and more accountable institution.

These policy changes were developed in close consultation with members of this subcommittee, as well as other Members of Congress, and concerned nongovernmental organizations. These policy changes reflect, in particular, the very high value that we place on

economic growth and shared prosperity. The changes we have negotiated in the Bank's ownership and operations also reflect a new sense of shared purpose and partnership that is now being created among the countries of the hemisphere.

Thank you.

[The prepared statement of Ms. Levine can be found in the appendix.]

Chairman FRANK. Thank you. Next we will hear from Diana Tussie. Dr. Tussie is a senior research fellow at the Latin American School of Social Sciences. Dr. Tussie.

STATEMENT OF DR. DIANA TUSSIE, SENIOR RESEARCH FELLOW, LATIN AMERICAN SCHOOL OF SOCIAL SCIENCES [FLACSO], BUENOS AIRES

Ms. TUSSIE. Thank you, Mr. Chairman. Social progress, economic growth, and democratization constitute a single process. Together they form a three-legged stool. If one of them is missing, stability and balance will be lost. Today there is a consensus, both among the Bank's shareholders and within the region, that these policy goals are equally important. With this in mind, there are three points I want to make about the policy goals of the IDB, and four points about its institutional practices.

First, if necessary, there should be an immediate provision of a social safety net for groups in distress. Reform must go beyond social welfare and public assistance. The generation of opportunities, the expansion of private investment, and the provision of employment is clearly central to any attempt to make reform sustainable.

Second, there should be increased attention to investment in human capital. It is a key aspect to improve competitiveness in world markets.

In the short term, attention should be given to the education, labor training, and employment needs of today's youth. They are the weak seam in the social fabric. Ultimately, they constitute the human capital base on which future growth rests.

Last, there should be a focus on the conditions to sustain equity-oriented growth. This means, for example, employment policies and fiscal reform. Fiscal reform, and the generation of opportunities in and for the private sector, can encourage growth of a trickle-up pattern.

Policies and regulations covering the labor market should be encouraged to assure all parties that, at the end of the day, profits will be fairly distributed, that decent wages will be paid, and that working conditions will be subject to certain standards.

The administration of justice must be improved to give all parties access to a system that is reliable, impartial, predictable, and effective. Social reform is a bottom-up process. The Bank cannot be a substitute for domestic efforts; but it can and it must be a catalyst.

Every society's aversion to poverty must be cultivated—a task for which the Bank is in an optimal position. Better information and analysis is crucial. The IDB should be encouraged to build a data base and an analysis system on the most vulnerable groups in society. The system should be capable of producing annual reports on how every country is meeting the needs of its poor, including women and children.

New financing mechanisms will have to be explored to tailor repayment and grace periods to the long gestation periods of these projects and programs. These policy goals imply institutional adjustments. There are four points I want to make in this regard.

First, the success of reforms will ultimately depend on the local institutions in charge of carrying out the policies. The Bank must be encouraged to keep on moving away from dam construction to training and institution building. The scarcest factor of production, south of the Rio Grande, is administrative capacity, and it is one that must be built up.

Second, the Bank can be more effective if its conditionality is well designed, sensitive, implementable, and interpreted flexibly. Conditionality must be seen as a continuous process, rather than a one-off action. The focus must be on cooperation and meeting development objectives. For example, one can build a hospital, but, without training nurses, there will not be an adequate health care policy.

Third, the staff of the Bank must concentrate more on the dialogue with the country, knowledge transfer, and technical assistance. This translates into smaller scale operations, but more labor-intensive operations than the bank and the borrowers have been used to.

Fourth, a culture of delegation must be created. As part of the discussions for the eighth replenishment, the president of the IDB set up a task force to investigate the reasons for portfolio management problems. The report, known as "Tapoma," found that portfolio management was largely affected by the lack of delegation from board to management, from headquarters to field offices. It is important to act on these findings to enable the Bank to become operationally flexible. This will enhance efficiency and effectiveness of operation.

Thank you, Mr. Chairman. I will be happy to answer any questions you might want to ask.

[The prepared statement of Ms. Tussie can be found in the appendix.]

Chairman FRANK. Thank you, Dr. Tussie. Next, we will hear from Mr. Robert Weiner, who is the program coordinator for Latin America and the Caribbean for the Lawyers Committee for Human Rights.

STATEMENT OF ROBERT O. WEINER, PROGRAM COORDINATOR, LATIN AMERICAN AND THE CARIBBEAN, LAWYERS COMMITTEE FOR HUMAN RIGHTS

Mr. WEINER. I would like to focus my remarks on two main areas of the Bank's justice sector, our foreign programs, and the procedural reform initiative.

Although Latin America has been a proving ground for justice sector reform in a bilateral area, this is a new area for the Bank. We welcome the replenishment agreement's direction and the Bank's efforts in this regard. They guarantee rights, as well as resolve disputes through reform to the Justice System. We have three main concerns regarding the process and the programs that the Bank is now developing.

In the process of developing this initiative, the Bank has consulted with service providers, sister development agencies, and member governments, but not with people on the—

Chairman FRANK. Not with whom? I am sorry. I did not get that phrase. Not with—

Mr. WEINER. People on the demand side.

Chairman FRANK. Oh, demand side.

Mr. WEINER. In other words, the individuals and entities that have to use these systems. This is not for lack of expertise in the region. There are many NGOs, both legally oriented and otherwise, with experience on the strengths and weaknesses of the justice systems throughout Latin America.

We understand that the Bank is also developing and nearing completion on a policy paper regarding these initiatives. And we would urge that it not be finalized without soliciting comment from relevant groups. That would include nongovernmental organizations, bar groups, and legal experts. It is our view that regular consultation will not only make the programs better, but will increase the ownership of these programs by their intended beneficiaries and improve their chances of success.

The second concern regarding the programs is the Bank's apparent reluctance to direct efforts to large areas of the law, in particular, criminal justice. If the Bank limits its efforts to the civil sphere or, in particular, commercial law, it will effectively abandon criminal justice reform to USAID, which would retain its monopoly over such programs. It is hard to imagine this reform being done effectively if it is done in a piecemeal fashion. Assisting one part of the system while another part continues to ignore or even trample rights is not a recipe for success. Many aspects of a legal culture which are unfortunate, including the lack of respect for a judiciary, reliance on influence peddling, instead of adjudication to resolve disputes, will remain to thwart success in this area, if those concerns are not addressed globally. I would add that this concern is not dependent on a challenge to the Bank's own framework. Even accepting the Bank's governance justification for doing judicial reform, which relies on the concept of consumer confidence as a way of promoting and enhancing the administration of justice, this will not work if criminal justice is ignored. The criminal justice system is part of the legal system that many citizens hear about and read about and experience. If what many base their perceptions on is allowed to remain in a sorry state, while other parts are addressed, the benefit will not accrue to the entire system, regardless of what advantages may accrue to a particular class of investor-litigants.

Equally unsatisfactory in this regard, would be a Bank approach that relies on purely technical and nonnormative fixes. Improving administration of justice through increased, or enhanced administrative procedures, enhanced hardware and software is a very commendable goal, but, unless this is connected to attention to the problems of subservient, frightened, corrupt, poorly paid, or poorly trained judges, little progress is likely to result.

In this regard, we would urge the subcommittee to seek a commitment from the Treasury Department to advocate a broader understanding of judicial sector reform within the banks.

The third area of concern regards political commitment. The replenishment agreement recognizes the importance of a government's political commitment in the area of social policy reform. Likewise, with judicial reform. A demonstrated commitment should be a threshold requirement for undertaking a program in this area. I note that USAID has accepted this principle in its programs. The problem is that too often, political will, on the part of a recipient government is either assumed or accepted on the basis of words, rather than deeds.

In this regard, Peru is a case in point. As a State Department report, again, points out this year, since the 1992 auto-coup, the judicial system in Peru has been a source of increased violations of human rights. United States policy, on a bilateral level, will hinge decisions about assistance, and in particular, decisions regarding judicial sector reform assistance, to the Peruvian government's willingness to address these concerns. I would suggest that where the State Department has developed a policy on a bilateral level that reflects such concerns, our multilateral policy should be consistent.

I do not think that the Treasury Department should be required to make these policy decisions without the benefit of interagency consultation. We would urge, in this regard, coordination beyond that which may exist currently to meet the basic legal requirements of section 701 of the IFI Act. We would welcome the subcommittee's efforts to seek a mechanism for extending such coordination to policy issues and, in that regard, promoting harmonization.

There are probably many ways to do this. The important thing is that meaningful consideration be given to the goal of harmonization, without yielding rigid or deterministic results. One approach might be to raise a presumption in favor of such a bilateral policy, which would have to be addressed and overcome in inter-agency consultations before a different multilateral policy would be taken.

The second area I would like to touch on is that of the procedural reform initiative, which is recognized and which we commend in the replenishment agreement.

With regard to the information disclosure policy, it is important that the Bank's processes become more open, in particular, to allow and enforce disclosure of early project documents, so that interested parties get a timely and a meaningful opportunity to participate.

With regard to the inspection function, we would urge that the implementing rules that are now under consideration by the board incorporate a few key principles, in particular, the ability of affected parties to raise objections and concerns at a meaningful point in the process, that includes points prior to board action, that the inspection function is afforded sufficient resources to allow it to be successful, and that affected parties be defined to include relevant nongovernmental entities. In doing so, that would be tracking the same approach that is taken with regard to the information disclosure policy in the replenishment agreement, and that issues over which the inspection function has jurisdiction would not exclude key areas through a definitional or procedural mechanisms.

For instance, excluding any actions which are not subject to Board approval might be one definitional way of limiting the inspection function and is something that we think should be avoided. Of course, the important thing here is to make sure that the implementation of these things breathes life into the commitments and principles that are stated in the replenishment agreement.

Thank you.

[The prepared statement of Mr. Weiner can be found in the appendix.]

Chairman FRANK. Thank you very much, Mr. Weiner. Finally, we will hear from Dr. Stephan Schwartzman who is a senior scientist at the Environmental Defense Fund.

STATEMENT OF DR. STEPHAN SCHWARTZMAN, SENIOR SCIENTIST, ENVIRONMENTAL DEFENSE FUND, ON BEHALF OF THE ENVIRONMENTAL DEFENSE FUND, NATIONAL WILDLIFE FEDERATION, AND THE SIERRA CLUB

Mr. SCHWARTZMAN. Mr. Chairman, I have three points to make today.

First, the U.S. Congress and, in particular, this subcommittee have been the motor of multilateral bank reform over the last decade.

Second, your efforts have been rewarded in the eighth capital replenishment of the IDB by important proposals for change in information disclosure and an independent investigation mechanism, as well as some signs of improved environmental policies.

Third, various ongoing, as well as potential bank projects, upcoming bank reorganization, and the past decade of experience with reform in the multilateral lending institutions, demonstrate that it is crucial to provide concrete incentives to the banks to implement reforms.

While we support the administration's request for authorization for 4 years of funding for the IDB's soft-loan window, the Fund for Special Operations, we strongly urge you to authorize U.S. funds for the ordinary capital for only 3 years. It is critical that you review the implementation of the proposed reforms before signing off on what would, at current lending levels, be the last replenishment for the ordinary capital of the IDB.

Now, the information disclosure policy and the independent investigation mechanism proposed by IDB management are a very good start. The point of information disclosure is to allow substantive discussion, meaningful consultation with populations and communities affected by a project before it becomes a fait accompli. The IDB here has some highly relevant experience that is worth mentioning. In its Porto Velho-Rio Branco road improvement project, in 1988, the IDB held a precedent-setting consultation with local NGOs and grassroots organizations in Acre State, as well as with State and Federal government agencies, and refused to proceed with the controversial project until government and NGO actors had agreed amongst themselves on goals for the environmental component. The net result was, while the project was slowed down, it benefited enormously. Today, the IDB is supporting some of the most innovative work in the Amazon, in agroforestry, protected

areas, and economic alternatives. This is where we think access to information should be leading.

Another demonstration of the IDB's proactive stance toward democratizing development is the creation of the Indigenous Peoples' Fund, the Fondo Indigena, a special fund, independent of the Bank, to support sustainable development alternatives by and for indigenous populations. The governance structure of the fund includes not only regional and nonregional governments, but representatives of the indigenous people's organizations themselves.

The IDB has shown that it is capable of conducting democratic consultation involving civil society in development decisionmaking. It needs now to show that it can mainstream that capability into its normal operations. The proposed information disclosure policy is an important step in the right direction. However, the Bank should close the enormous loophole by which any information that the Bank or a member country determines to be confidential or sensitive would be withheld. To introduce into this policy what is, in essence, a general disclaimer to it, runs counter to the central principle of the policy, according to which information is to be released or withheld, based on "pre-designed policies and principles." In any event, the critical point is that local groups and other interested parties gain effective access to early project documents. Whether or not this will work can only be judged in the implementation of the policy.

Several projects and potential upcoming projects may be critical tests of both new policies. For example, the \$450 million Sao Paulo Tiete River cleanup, approved in 1992, is a case in point. It is a project initially designed in response to massive public demand in Sao Paulo. Local NGOs organized a public campaign in favor of cleanup, including a petition with over 1 million signatures. The State Governor, Fleury, promised transparency and public participation of project administration. Since the project has been approved, the Governor has systematically excluded the public from decisionmaking bodies over water resources in Sao Paulo. He sequestered the project administration in the deepest recesses of his government. The local NGOs in Sao Paulo are gravely concerned with the fate of this project in this mega-election year in Brazil. It is a potential test of both new policies.

Also, the IDB has committed some \$10 million to feasibility studies for the projected 3,000 kilometer Parana-Paraguay Waterway. This potential multibillion dollar river navigation project could cause massive environmental impacts on the largest freshwater wetland in the hemisphere, the Pantanal of Mato Grosso. A recent and very detailed analysis prepared by a consultant to the World Wildlife Fund Brazil Program, shows that the project is absolutely unfeasible, from an economic perspective. The official cost-benefit calculations are based on grossly exaggerated production projections. Minimal, most obvious environmental costs are not incorporated, and so on, and so on.

The question that this WWF Brazil Report raises is why is the IDB financing engineering and environmental studies at all, since the project is economically so deeply questionable? Many NGOs in the regions are very concerned with this potential project. They are

seeking information on it. So it, too, may be an important test of the new policies.

A further challenge for the IDB's new policies, as well as for the existing environmental procedures, is the upcoming reorganization. One reason that the IDB's environment department has been relatively effective is the existence of the high-level Environment Management Committee [CMA]. Top management, with technical support from the environment department, is obliged in this subcommittee to screen all projects for their environmental effects. So it acts as a high-level locus of accountability. It is critical that the integrity of the Environment Management Committee and the Environment Department be maintained in the upcoming reorganization. We are aware that both the president and the vice president of the Bank intend for the reorganization to streamline procedures, without sacrificing project quality. The IDB is a large institutional complex, and responds to many interests. The effects of the reorganization, like the proposed new policies, will be seen in the implementation.

In short, Mr. Chairman, this subcommittee, with the collaboration of the Treasury Department, and important forces within the IDB, has begun a critically important reform process in that institution. We urge you to stay the course. Authorize U.S. funds for the ordinary capital of the IDB for no more than 3 years.

Thank you.

[The prepared statement of Mr. Schwartzman can be found in the appendix.]

Chairman FRANK. Thank you, Dr. Schwartzman. We will begin the questioning with Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman. Congratulations for holding this important hearing. Let me start with Ms. Levine, if I might. Welcome, again.

Ms. LEVINE. It is nice to be here.

Mr. SANDERS. You are with us on a regular basis here. The main concern that I have has to do with IDB funding and human rights. I know that has been touched on a little bit. Start me off by telling me whether you know if any of the multilateral development banks incorporate a specific provision prohibiting fund dispersion to governments engaged in human rights violations? What I am saying is, if you have a country which is clearly perceived to be a violator of human rights, do they get funding from multilateral development banks that we contribute to?

Ms. LEVINE. Mr. Sanders, as you know, the multilateral banks are technically supposed to lend in an apolitical way. So there are countries, for example, that we have State Department limitations on U.S. support that we might oppose lending to because we have determined that they have violated human rights, that the banks might otherwise lend to, because a lot of the projects are basic human needs-type projects. So, I think, the correct answer is that the Bank does not have a list of countries that it says it will not lend to.

Mr. SANDERS. So, in other words, American taxpayer money, through some of the multilateral development banks, will be going to countries that we perceive to be in violation of human rights; is that correct?

Ms. LEVINE. It may. We certainly do everything we can to influence policies early on, but there are cases where it may, yes.

Mr. SANDERS. OK. My second question is: Does the Inter-American Development Bank have such a provision?

Ms. LEVINE. The Inter-American Development Bank is currently not lending to any countries that we, the United States, would deem to be violators of human rights.

Mr. SANDERS. On what basis is that made? Is that policy? How is that?

Ms. LEVINE. Well, I guess, the short answer is none of the countries that are borrowing members of the IDB hit the list that we would claim to be violators of human rights violations.

Mr. SANDERS. Let me ask you this. Correct me if I am wrong. Let's use Haiti as an example. OK?

Ms. LEVINE. OK.

Mr. SANDERS. We are all—or most of us are terribly concerned about what is happening in Haiti now, and the——

Ms. LEVINE. Sure.

Mr. SANDERS. Brutal government that is existing there. Now, my understanding is we are not now—the IDB is not now lending money to Haiti. My further understanding is that the reason is that there is not a “recognized” government. My fear is—correct me if I am wrong on this—that you could have a recognized government that could still be a brutal government and receive Inter-American Development Bank loans. Would that be correct, or is that not?

Ms. LEVINE. It is a good question, Mr. Sanders. I think we recognized, in this replenishment negotiation, again, the importance of respect for human rights. I might add that the replenishment document states, and this was heavily discussed, I would quote, please, that, “Democracy and respect for human rights have helped create appropriate conditions for development.” So the document, itself, acknowledges the importance of respect for human rights within the replenishment agreement, which, for us, it is a given. Many of the countries, especially in this region, were concerned that we were pushing so hard on this saying, well, for most of us. Clearly, Haiti was out there. For most of us, we have clearly recognized the importance of democracy. So why are you raising this?

The issue of Haiti is complicated, as you well know.

Mr. SANDERS. No. I honestly do not think it is complicated.

Ms. LEVINE. I think, from a U.S. policy point of view, this is not Treasury's purview.

Mr. SANDERS. Yes.

Ms. LEVINE. We know that there are a lot of discussions going on right now. The IDB is currently not lending to Haiti. I think we will have to see what happens in Haiti.

Mr. SANDERS. Mr. Chairman, I would just, in terms of this discussion, I think, for most Americans who have problems with foreign aid, in general, they are especially angry that money would be given to governments which are brutal and undemocratic. I would hope—and I know that you share that concern. One of the goals of hearings like this is to establish Congress' concern that money not go to those institutions.

Mr. Weiner, let me ask you a question, if I might. In your written testimony, you pointed out that the Peruvian Government is committing gross human rights violations, yet receives IDB funds. What role do you think IDB should play in protecting human rights?

Mr. WEINER. Of course, my comments were directed to the context of these affirmative initiatives to promote reform. Our approach to that—my understanding is that the IDB is now engaged in studying the Peruvian justice system. I do not know that it has launched a project to actually reform the judiciary, but it is in the process of deciding whether it will do that.

Mr. SANDERS. At what point? I mean, a study is fine.

Mr. WEINER. Right.

Mr. SANDERS. At what point does somebody say, excuse us, international experts have indicated there are gross abuses of human rights, period. Should those countries continue to receive IDB money?

Mr. WEINER. We believe that, unless there is a demonstrated commitment to make these reform programs really respect rights, these programs will not work. So our judgment that the program should not go forward, is not a punitive one. It is one that says these programs are not likely to be money well spent, if the government has not demonstrated that it is committed to allowing reform to go forward, or, if it is reserving certain areas of the justice system as unreformable or untouchable by the IDB or a bilateral development agency like USAID.

Mr. SANDERS. When we look at the issue of human rights, one of the concerns that I have, getting outside of America, and going to China or other countries, is sometimes we forget about issues like labor rights. I mean, Haiti would be an example where people today are being paid 15 or 20 cents an hour, cannot form unions and so forth, and so on. So, when we talk about human rights, do we consider those things? Is that part of the discussion, in terms of criteria by which the Inter-American Development Bank might or might not make loans?

Mr. WEINER. I think those would fit into it. I think those rights would fit into the larger rubric of freedom of association, and the ability of a civil society to develop, all of which is connected to a concept which the bank accepts as the basis for its activities in these areas, which is that of good governance. If civil society is not developing, there is less of a chance that public institutions will be pushed toward the mandate that they should be fulfilling. To the extent that nongovernmental entities, be they trade unions, human rights groups, or other associations, are repressed in their ability to organize and function, then the prospects for improvement do not exist in the Bank's own framework for analysis. I suggest that the Bank take that very seriously.

Mr. SANDERS. I think, Mr. Chairman, as you know, there has been deep concern, over the years, that many of the multilateral banks have not respected the needs of the poorest people, and have not respected democratic rights in countries that have received funding. I would hope that we would continue to pay a great deal of attention to that, that we want the American taxpayers' money

to not only improve the lives of poor people, but to create democratic institutions, not to support dictatorships or barbaric regimes.

Thank you very much.

Chairman FRANK. Thank you. I very much share those sentiments. I was encouraged, because it did seem to me that all of the witnesses felt that the trend at least was in the right direction with the Inter-American Development Bank. We want to keep pushing that.

We have, obviously, a tricky situation, where it is multilateral, rather than bilateral, because we do not have direct power. I want to tell Ms. Levine, this is one of the problems that continues to concern me. It is not your individual problem. It is an institutional one that you have inherited. That is, I am more and more convinced, as I chair this subcommittee, that the State and Treasury Departments talk much too little to each other about this, in terms of coordinating.

I think the problem of bureaucratic turf plagues us here. For instance, we have been told, from time to time, that our Treasury Department has tried to accomplish certain things at the boards of the multilateral development banks. I agree. They have tried. Often we have been rebuffed. I think we have been on the right side, and others have not paid attention. Rarely, if ever, have I heard that Treasury went to State and said, look, we need to get this vote through the executive board of one of the multilateral banks. What have you got that could help us? I mean, we have whip meetings over here when we want to pass something for you. I think you need to have some departmental-wide whip meetings, when you are talking about these boards of directors, and call in some of these other countries, and some of these other agencies and say, well, how can we move in this direction.

I mentioned this briefly to Mr. Bereuter—we benefit here because Mr. Bereuter is not only the ranking member of this subcommittee, but he is a very active and respected member of the Foreign Affairs Committee. I am going to continue to talk with him, and I will be talking to the staff. At some point, I think, I am going to ask for some kind of formal conversations along those lines, because I think that there has really been too little of it.

Now, let me turn to some other questions. Dr. Schwartzman, you mentioned a 1988 precedent of consultation with NGOs. Has that been a trend? Was that isolated? You mentioned something about 6 years ago. Are they following that model?

Mr. SCHWARTZMAN. Unfortunately, that stellar example stands out for its singularity. It is also unfortunately not by accident that it came at a moment of very great public attention to the IDB's operations, the Chico Mendes story, and the story of Chico Mendes's contacts here in the U.S. Congress, and considerable U.S. pressure on the IDB, specifically, because of the project that it was involved in. So the Bank demonstrated greater capability, I think, concretely than any other multilateral lending institution in that direction, and it has remained an isolated example.

Chairman FRANK. Let me ask Ms. Levine. Do you share the analysis that that was a good model for them to follow? Are there other things we can do to try to encourage them to continue to do that?

Ms. LEVINE. I think the model of consultation is one we strongly advocate—the replenishment agreement includes those kinds of instructions. Consultation with people affected by projects improves their quality and effectiveness. The Bank's management, itself, has acknowledged that. So we wholeheartedly agree that we should do all we can to encourage consultation.

On your other point of more consultation; it is always good. In the other negotiations we have done, for example, the Global Environment Facility, we have seen that close consultation is valuable and important. We have done some. We can certainly do more.

Chairman FRANK. Yes.

Ms. LEVINE. We would appreciate some suggestions.

Chairman FRANK. The fact is that it is a turf problem. I mean, I learned the other day that, when one of the multilateral development bank officials was about to talk to some people at State, the Treasury got very upset. You cannot do that. That is just not sensible. You cannot have this kind of turf situation. I ran into it myself when I early on thought maybe we should have some State people here. I did not follow through. Now I am going to, because I am convinced that we need to do more coordination.

Dr. Tussie, I noticed that you wanted to speak. I also wanted to ask you a question as well, because you are an expert on the political situation within Latin America. One of the issues that we face is we are told sometimes that when we are pushing for more consultation, more transparency, review procedures, that somehow, that sometimes these are seen as American interference, and so forth. So I am just interested in your sense: Given the politics of the situation, what is the best way for our country to pursue these so that we maximize the chance of accomplishing them without running into a situation of "Oh, here comes Big Brother, telling us how to run our lives?"

Ms. TUSSIE. Well, that was precisely what I wanted to—why I raised my hand. I think the question of consultation is very important, because it leads us to resolve one of the problems, that is, the lack of ownership of the projects by the people.

Chairman FRANK. Excuse me one second. This room has got the worst acoustics. I can imagine what you all are going through trying to understand me, because I cannot understand anybody else. So I will ask you to try to speak clearly into the microphone and articulate.

Ms. TUSSIE. All right. I will start again.

Chairman FRANK. It is a lousy room. There is nothing we can do about it except that.

Ms. TUSSIE. OK. I will start again then. The question of consultation is, I think, important, because it leads to one of the more important questions that development is about—to make people for whom projects were designed feel that they own the projects. I mean, that is important. That is, I think, why consultation can help. I think also accountability is an inside-out process. It is not an outside-in process. That is why I think when we think of consultation, it does not have to mean just consultation with shareholders or consultation with the United States. It also means consultation with the people in the borrowing countries, for which you need local NGOs, for which you need local organization, and for

which you need democracy. I think that process is on its way. I think that should be encouraged.

Chairman FRANK. Let me ask particularly if the United States is pushing some of these. I do not know about this. I know, when we did this at the World Bank, for instance, we were told, "Oh, here comes the pushy United States. You guys think you know how to do everything well, and you are interfering." I mean, do we run that risk? Is there less of that?

Ms. TUSSIE. I think there is less of a risk at the IDB. I am not completely well informed on what the situation is at the World Bank, so I cannot say.

Chairman FRANK. Mr. Weiner.

Mr. WEINER. Just to add to that, I think the argument that by raising such issues, the United States is impinging on the sovereignty of other countries would be revealed to be quite specious if the Bank processes allowed local NGOs and citizens of those countries to express their views. I think that quite often these concerns originate with people in those countries who do not have sufficient opportunity to raise them within their national discourse.

Chairman FRANK. So one very important thing is to make it as clear as we can that we do not want the IDB listening only to people that the host government may recommend, that we want the IDB to be very free to pick its own individual and independent sources within a country, and not have—I mean, obviously, the host country has every right to send up whomever it wants to send up. It sounds as if it would also be important for the IDB to make a real point of seeking out people within the borrowing country who did not necessarily come through the government channels.

Dr. Schwartzman, then Ms. Levine.

Mr. SCHWARTZMAN. I just wanted to add that I think the concern about being perceived as an outside force that is interfering on something does come up. It is typically from the governments and so on. It is a real issue. I think that is important. Just recently, just the end of last year, for the first time, a large group of really technically accomplished, large Brazilian NGOs, for the first time, the biggest and I think most representative NGOs in the country put together a group and have written to their own minister of finance, their own minister of external relations, to seek meetings, to begin to discuss Brazil's policy in the multilateral lending institutions, particularly, the IDB. One of the reasons for this is they have recognized seeing the record of what has been accomplished through this subcommittee and others in the U.S. Congress over the last 10 years, that it is possible to change the multilateral lending institutions. They are beginning to act on that on their side now, which I think is an important accomplishment.

Chairman FRANK. I have urged the groups we have worked with here, and I know they have tried to do it, particularly, in Western Europe, for instance, to the extent that our own NGOs can help activate their counterparts in other countries to lobby their governments, that helps us.

You just gave me an idea of one of the things that I would encourage people to do. If you have NGOs in Brazil or elsewhere, who would like to contribute to the record of this hearing, we would be delighted to have it. It might be very useful if you could encourage

representative NGOs elsewhere to write to us. We would be very glad to incorporate comments in this hearing record, because we know that the hearing record has some readership at the various institutions. That might be another way for us to make that point. I would urge you to do that.

Ms. Levine.

Ms. LEVINE. Yes. Mr. Chairman, I just wanted to comment on what I see is a very big difference, certainly based on information I have heard about the previous negotiation of IDB-7, versus IDB-8. A lot of the policies—all of the policies that we achieved, which, in earlier days, would have been deemed quite revolutionary and controversial—were done clearly in cooperation with the regional members. So there was really no perception that it was the United States coming in and telling everybody else what had to be. In fact, I think, even some of the press that came out of Guadalajara, concluded that there was a real climate of change in this negotiation. So, I think we were very sensitive to those earlier reactions and clearly realized that, if you do not own the policies, you do not succeed in implementing them. We feel that there is a much greater sense of ownership of these policies.

Chairman FRANK. I will call Mr. Sanders in a second. I always absorb this jargon after a while. By ownership of policies, we mean that people accept them and agree to them, and they have a part in it?

Ms. LEVINE. It was agreed in a very constructive, consultative fashion, not the United States coming in and saying—

Chairman FRANK. When you talk about owning a policy, it is not always clear to people. They might not have the faintest idea what we are talking about if we do that.

Ms. LEVINE. Thank you.

Chairman FRANK. Mr. Sanders.

Mr. SANDERS. Thank you. Let me ask a naive question, if I might; that is, the relationship between politics and government lending. In other words, I was interested to note, if I have my information correct, that, in terms of Nicaragua, it seems that there were no loans made until 1991. My recollection is the Sandinistas were in power before then. Mrs. Chimmaro was elected. They seemed to have gotten a lot of money. I notice that in Guatemala, which has been long noted for its death squads, and some people believe are actually committing genocide against their native people, with the exception of 1989, that country continued to get a whole lot of funding. I notice that, in Chile, which did not have free elections until fairly recently, was run for many years by the Pinochet government, which had killed and tortured many people after they overthrew the democratically elected government, also received substantial sums of money. Did Chile, under Allende, get any money?

Chairman FRANK. That is the best-informed naive question I ever heard.

Mr. SANDERS. Just kidding, Mr. Chairman. I did know a little bit about it. I was just kind of curious. Is this just an accident that Allende did not get money and Daniel Ortega did not get money, but rightwing military people seem to get money? Is it just a coincidence or not?

Ms. LEVINE. I do not know that I can answer all of your questions. I think one of the reasons, quite frankly, my colleagues advise me, since it, again, predates us, that Nicaragua received no loans, they were in arrears to the IDB. So I am not sure if it was a political reason. It was certainly a financial reason.

On Chile, I understand that we did work hard to try to generate opposition to lending to Chile. I do not know if we were able—

Mr. SANDERS. Under Allende?

Ms. LEVINE. Previously, that is right.

Mr. SANDERS. It was a democratically elected government?

Ms. LEVINE. No, no, no, no. Previously.

Mr. SANDERS. Under Pinochet?

Ms. LEVINE. Under Pinochet. Again, it predates my knowledge of our involvement in the IDB. I understand it is often difficult to form international consensus. We certainly do that. We do it in the other multilateral development banks, as you know. In the World Bank, on Iran, we work very hard to prevent lending to Iran. So we do take strong positions on countries that we feel are violators.

Mr. SANDERS. Ms. Levine, I would be—has Cuba ever received any loans at all?

Ms. LEVINE. No.

Mr. SANDERS. They are outside of the ballpark. OK.

Ms. LEVINE. They are not a member. That is right.

Mr. SANDERS. They are not a member. OK. I would be curious, would be appreciative if you could send me some information on the history of our—

Ms. LEVINE. We would be delighted to.

Mr. SANDERS. Loan policy on Nicaragua, Chile, El Salvador, and Guatemala. I understand El Salvador, throughout, has been receiving loans, in addition to the \$6 billion that the United States Government has given them. It also has not had one of the great records on human rights, one of the leading death squad countries of the world; but the Inter-American Development Bank continued to lend money to them.

Ms. LEVINE. Again, my colleague, Mr. Weiner, pointed out, and I think in this negotiation we have certainly stressed the important proactive role institutions like the IDB can play in promoting judicial reform and promoting good governments and lending for basic human needs. There has certainly been a great amount of progress in the region. Today, you would not say that most of those countries are major human rights violators. The fact that there was development going on in the region has helped. That is why we support these institutions. We have learned that there is a benefit to development. I certainly am sensitive to your concerns. We will give you that kind of information. Our respect for human rights is one reason we negotiate these types of agreements.

Mr. SANDERS. OK. Thank you, Mr. Chairman.

Chairman FRANK. Ms. Levine, I have got to ask you, I mean, let's not let bureaucratic inertia overcome reality. You manage to talk all about these things as if we did not have an election in 1992. No one, including you, believes that. So let's not talk about it like that. I mean, the fact is we had different administrations. I do not understand why this is, but people—and it is very nice, and institutionally loyal, but people come in in one administration and they

never want to criticize what happened before. I cannot believe that the fact that we had an election in 1992 is totally irrelevant. The notion that these are all economic issues and it was because Nicaragua was in arrears, and so forth, and so forth, you and I know that is not the major factor. Do not talk like that. We can be real here. OK? We had an administration where they had a political agenda to support these rightwing regimes, and they supported them, and they punished the leftwing regimes. In fact, I think there was no honest application of human rights. You bend things out of shape that way. I think that is just not a good idea. I understand that that is generally considered bad form to do it, but we are talking about really very important issues. So I think we just need to be very explicit. I think you ought to submit that stuff for the record. I think what we will see is a pattern where politics dictated it in an unfortunate way. You distort the economic things when you pull them in that way.

Well, that is the major set of questions that I had. We will be following up with the IDB. We will make clear, in our report to them, that we think that—and I am pleased to hear that people think things are going in the right direction, but we would like a lot of encouragement in that regard.

Yes?

Ms. LEVINE. Mr. Chairman, if I may? Since you did not ask any questions about it, and my colleague recommended a shorter authorization than the replenishment period, I would just like, for the record, to suggest that, while I understand the rationale, I think continued policy oversight is clearly important. We have built in a number of mechanisms for that. My concern would be, given the importance of the region to our foreign policy, given the summit, given the amount of attention that has been paid to this replenishment, an authorization that would be shorter than what was negotiated could send an awkward signal.

Chairman FRANK. I understand. You could, of course, tell them that you dutifully reported that, but you tell them, you know how I am. We will certainly be working in the right direction. The more they can implement these things, the likelier it will be that I would be successful in an effort to do that.

Ms. LEVINE. Thank you.

Chairman FRANK. Thank you. The hearing is adjourned.
[Whereupon, at 11:04 a.m., the hearing was adjourned.]

APPENDIX

Embargoed until delivery
 10 am EDT (approx.)
 Text as prepared for delivery

STATEMENT OF SUSAN B. LEVINE,
 DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR
 INTERNATIONAL DEVELOPMENT, DEBT AND
 ENVIRONMENT POLICY
 BEFORE THE SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
 FINANCE, TRADE AND MONETARY POLICY OF THE
 HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

April 28, 1994

Mr. Chairman, I appreciate this opportunity to appear before the Subcommittee. We are requesting authorization for U.S. participation in the eighth replenishment of resources for the Inter-American Development Bank.

This replenishment agreement is important to the United States. Our country has longstanding economic and financial ties to Latin America and the Caribbean. It is in our national interest to renew the resources of the Inter-American Development Bank.

The Administration attaches a very high priority to helping the countries of Latin America and the Caribbean sustain and broaden their economic recoveries. This is clearly reflected in the formulation of our FY95 request for funding the multilateral development banks. Over the next three years, new lending commitments for the region from these institutions are expected to reach roughly \$40 billion.

From a foreign policy perspective, the replenishment agreement is important because it promotes democracy and the concepts of shared prosperity and sustainable development. It sets the stage for the Summit of the Americas to take place later this year in Miami.

The agreement we have negotiated points the Inter-American Development Bank in new policy directions, and it does this at very low budgetary cost to the U.S. taxpayer. The annual cost of our participation in the new replenishment is being cut almost in

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half, down from \$90 million in the last replenishment to about \$46 million now.

Our request includes \$153.6 million for paid-in capital which will be spread over a six year period, and slightly more than \$9.0 billion for callable capital which should not result in any budgetary outlays. It also includes \$82.3 million for our contribution to the Fund for Special Operations (FSO), which will be spread over four years. We are not requesting a separate authorization for the Bank's private sector affiliate, the Inter-American Investment Corporation.

The agreement will provide the Bank with \$40 billion in new capital, bringing its total capitalization to more than \$100 billion by the end of the replenishment period. This will allow the Bank to continue lending at current levels and provide room for moderate increases in the future. The replenishment of the FSO will provide \$1 billion in new concessional resources for the poorest countries in the region.

This is the first regional bank replenishment agreement that has been negotiated by the Clinton Administration. In many respects, I believe it should serve as a model for agreements to be undertaken in the other regional development banks.

In crafting this agreement, we wanted to accomplish three basic objectives:

- to put people first — to ensure that the benefits from Bank lending are shared broadly among all people in borrowing countries;
- to protect the environment — to improve the Bank's internal policies and procedures and lend more for projects that benefit the environment; and
- to reinforce the trend now underway in the region toward greater reliance on the private sector and market mechanisms.

In recent years, many Latin American and Caribbean economies have undergone profound change. In some countries, economic growth has been particularly robust. The role of the Bank is to ensure that this growth is sustained and takes hold in other countries in the region.

For growth to be sustained, the benefits of growth must be shared more equitably. We look to markets to allocate resources most effectively; but markets by themselves will not ensure that prosperity is shared. The challenge for the region is for government to become a more constructive force, promoting more inclusive economic growth.

To help expand economic opportunity in the region, the Bank will increase its lending for projects that directly affect the lives of people, especially those that are poor and disadvantaged. That is why lending in the social sectors is to increase from 25 percent to 50 percent of total operations under the terms of the replenishment agreement.

This lending will also be more effectively targeted. In the past, some of the Bank's social sector projects, such as heavily subsidized universities and high-tech urban hospitals, have not really made a difference in the lives of poor people. We have sought to change this by emphasizing the need for more consultations with local communities — the people the projects are trying to reach.

With this agreement, financing will be provided for:

- primary health care, through small clinics in rural areas and urban neighborhoods that previously have not been served;
- maternal and child health programs, incorporating immunization, nutrition and family planning;
- basic education for primary and secondary school-aged children, particularly for girls;
- vocational training, including retraining for individuals who have lost jobs and remedial education for those who have missed out on earlier opportunities; and
- good governance, including better land titling, more equitable tax structures, and judicial systems that really work.

These types of social lending are the bedrock on which long-term economic benefits depend. For example, female literacy helps reduce unsustainable rates of population growth, while better training and education provide a more skilled work force and more attractive business environment.

We have also worked hard to get greater protection for the environment. This will help improve the lives of people throughout the region, not only the urban poor but also people in rural areas and indigenous peoples as well. In this regard, here is some of what we accomplished:

- There is a clear commitment that the Bank will not finance commercial logging in primary tropical moist forest areas. This will help provide protection to important areas such as the Amazon rain forest.

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- There will be an extension of the Bank's guidelines to cover the possible environmental effects in areas such as agriculture, transportation, and watershed management.
- There will be more lending for environmentally beneficial purposes, including projects for potable water and sewage and sanitation.
- There will be more emphasis on energy efficiency and conservation and the use of renewable energy resources.
- And there will be consultation with affected peoples and inclusion of resettlement issues in the Bank's environmental impact assessments.

Mr. Chairman, as you are aware, this Administration has listened to calls for increasing public participation and assuring greater transparency and accountability in the multilateral development banks.

In this replenishment, we have obtained a commitment from Management for a comprehensive information disclosure policy analogous to that of the World Bank. There is also agreement for creation of an independent inspection function; this may include a panel of independent experts to investigate charges that the bank has failed to correctly apply its own operational policies.

Under our new replenishment agreement, policy-based lending will be reduced from 25 percent to 15 percent of total lending. Many of the larger countries in the region have been successful in using fast-disbursing, policy reform-oriented loans to make their economies more open and to reduce the debt burdens they have carried in the past. A large part of that work is complete and we can now look to lowering this type of lending.

It may still be appropriate to provide policy loans to the smaller countries in the formative stages of adjustment. Both large and small countries can benefit from reform-oriented policy loans that enhance the delivery of basic social services, especially to the poor and disenfranchised.

But increases in investments in social services are only part of the new undertakings we have set out for the Bank. A significant increase in investment in modern infrastructure is also needed if the private sector is to thrive. The region's enormous needs for financing in these areas cannot be met by governments alone, even with input from the multilateral development banks. Private capital, both local and foreign, will be indispensable.

In a new departure for the Bank, up to five percent of its total lending will be made available for privately-owned infrastructure and public utility projects. This lending will extend the

financial reach of the Bank into areas where there is great need, encourage privatization, and will not require government guarantees.

The agreement also aims to streamline the Bank's various private sector programs, including those of the Inter-American Investment Corporation and the Multilateral Investment Fund. We will continue to pursue alternatives that promote the expansion of micro-enterprise and the creation of new small businesses — without requiring new U.S. capital commitments.

Let me turn now to some of the financial aspects of the replenishment agreement. While we are reducing our own annual payments to the Bank, we have taken steps to broaden the participation of other countries. This will strengthen the Bank and assure that the flow of new capital into the region will continue.

Some of the new money will come from other countries in the region, but substantial resources will come from Europe and Japan. In return for these contributions, the Bank's regional members — including the United States — have agreed to a reduction in their membership share. This will allow non-regional members to double their share. As a result of these and other changes, two new chairs will be created for the Bank's Board of Directors, one to be headed by Japan, the other by Chile.

These changes in voting strength will lead to no real diminution of our role or influence in the Bank. Although our capital share of the IDB will decrease from 34.6 to thirty percent, we will maintain nearly all of our current rights and privileges. Our approval will thus be required for the Bank to make new FSO loans or adopt FSO policies, and our participation will continue to be critical for all meetings and votes of the Board of Governors.

This is assured by provisions for changing the Charter which have been included in the replenishment agreement. The legislation we have submitted to you will authorize us to approve these Charter changes. Of course, we will continue to retain control over key decisions such as the timing of Ordinary Capital and FSO replenishments, Charter changes, and the distribution of the Bank's net income.

This agreement marks a fundamental shift in the operations of the Bank. It begins to move the Bank in new directions. There will be more investments in projects that benefit more people of the region. The bank will undertake new initiatives involving the private sector. It will become a more open and more accountable institution.

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These policy changes were developed in close consultation with members of this Subcommittee. They also include contributions from other members of Congress and concerned non-governmental organizations.

These policy changes reflect in particular the very high value that we place on economic growth and shared prosperity. The changes we have negotiated in the Bank's ownership and operations also reflect a new sense of shared purpose and partnership that is now being created among the countries of the Hemisphere.

Thank-you, Mr. Chairman.

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Statement of
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to the

Subcommittee on International Development, Finance, Trade
and Monetary Policy of the

Banking, Finance and Urban Affairs Committee
US House of Representatives

April 28, 1994

Mr Chairman, I want to thank you for inviting me to testify at this hearing on the Inter-American Development Bank.

Since 1991 the IDB has regained its position as the leading official lending institution to Latin America. In the coming years it will be the only official net provider of finance to the region.

Thus, as the process of getting Latin America into macroeconomic balance matures, it is increasingly important to strengthen and focus the IDB's policies to assist its borrowing member countries in their renewed development efforts. The importance of a focused strategy and the need to build on the Bank's comparative advantage becomes vital. The Bank needs to become more operationally flexible in terms of policies, procedures and conditionality to meet the new challenges.

Policy goals

Latin America is sadly recognized as the region with the worst levels of income inequality. The "trickle down" of the benefits of growth was smaller than in other areas of the developing world during the 1950-82 period during which growth was relatively strong. But even the soft "trickle down" was reversed during the 1980s. At the beginning of the nineties, the per capita income of the average Latin American had fallen to a level lower than the one in 1980. The period is known as the lost decade.

Poverty became more acute through the eighties with the proportion of the poor rising from 41 to 47% of the population. The "traditional poor" have been joined by a legion of "new poor", people who have lost their jobs as a result of restructuring and adjustment. The new poor have swelled the ranks of the informal sector, becoming self-employed or working for microenterprises. With the growth

of the informal sector, poverty has also become more heterogenous.

This is now recognized as the "social debt", the domestic obligation to recover the living standards of the poorest and most vulnerable groups in society, in practice the other side of the recessive adjustment policies adopted to meet external debt obligations. Deterioration of social infrastructure, institutions and systems of delivery is widespread.

Although social welfare must be tackled immediately, social reform must be seen as a continuing process that goes beyond social welfare and public assistance. Economic development, social progress and democratization constitute a single process. Together they form a three-legged stool. If any one is missing, stability and balance is lost. Thus the generation of opportunities, expanding investment and providing employment is clearly central to any attempt to make social reform sustainable, continuing and permanent.

In most countries today the agents of investment have changed. Responsibility for investment has shifted away from the public sector and is increasingly taken up by the private sector. The private sector has taken on increasing responsibility for integrating regional economies with each other and to world markets. This change in responsibilities has very important implications because in order for private investment to take place certain conditions must be present in the economic environment. After the process of achieving macroeconomic stability begins to mature, next comes the creation of a suitable institutional and regulatory framework. In this context policies and regulations covering the labor market will have to be encouraged and ensured to assure all parties that at the end of the day profits will be fairly distributed, that decent wages will be paid and that working conditions will be subject to certain standards. Overall domestic accountability must be encouraged which means that legislation must be adapted and brought into line with the requirements of a global economic order. The administration of justice must be improved to give all social groups access to a system that is reliable, impartial, predictable and effective. As this process takes off, to improve the immediate impact of IDB lending for poverty reduction and poverty alleviation attention to the following should be encouraged:

a. Place over-riding attention to the conditions to sustain growth (over other objectives) - and growth of an employment-intensive and generally participatory pattern. It is only under a more equity-oriented economic and fiscal framework that such growth can be expected to trickle down to the poor.

Specific poverty-conscious macroeconomic policies include: promotion of labor intensive methods of production and technologies to reduce the need for continuing lay-offs and increasing unemployment; fiscal policies that revert to increased progressive taxation and improvement of tax collection rather than rely on consumption taxes with regressive effects or on cutting social expenditures that favor the poor; export-oriented growth and exchange rate policies designed to promote labor intensive exports. Plans and programs should be employment-weighted and monitored in terms of their impact on employment.

Even more preferable would be to encourage "trickle-up growth", growth rooted in the microenterprises and the expanding informal sector. It is only under such a framework that social expenditures need not be expected to soar continuously over the long term. Under the last replenishment, support to microenterprises added up to \$300 million. In general, all one regrets about these lines of credit is that they are small in relation to the size of the informal sector in almost all Latin American countries. These programs need to be expanded in recognition of their impact on poverty. In addition, the "democratization" of credit could lift the restraint imposed by the existence of highly imperfect local capital markets. Both the small projects program and the microenterprise program of the IDB could make a contribution in this respect if they were significantly funded.

In all countries the need for structural reforms to promote greater mobilization and more efficient use of domestic resources is inescapable. An attempt must be made to increase public revenues broadening the tax base and making the burden more progressive. Nonetheless, the poorest borrowers will remain dependent on concessional funds. They are characterized by a reduced tax base and proportionately larger share of the population living under the poverty line.

b. Place increased attention to investment in human capital and the assets of the poor as a pillar for sustainable development. Investment in human capital in particular, and social investment in general, are key aspects to improve competitiveness in world markets. The IDB should contribute not only to increase awareness of this factor and disseminate the lessons that can be extrapolated from other regions of the world, but more importantly it should actively support greater focus on increased human capital investments, not only as a "one-off" action. Support should be sustained over the long term. In the short term an important amount of investment in human capital must be targeted towards the poor; this means, for example, primary and community health care and concern for delivery systems instead of teaching hospitals.

Attention in new programs, both on humanitarian and social stability grounds, should be given on supporting the education, labor training and employment needs of today's youth - the children that grew up during the lost decade-. They are a weak seam in the social fabric. Ultimately they constitute the human capital base on which future growth and poverty elimination rests. Within the context of poverty reduction and alleviation programs the gender dimension needs to be given sustained attention. Lack of access to training, nutrition, health and education services has left women particularly vulnerable to poverty. The gender dimension must increasingly become incorporated into all projects.

Participatory methods of project selection, design, execution and monitoring can support the investment in human capital and can sustain grass-roots democratization of Latin America societies.

c. The third element in a poverty-oriented strategy is the immediate provision of a social safety net for groups in distress. The most urgent poverty problems can be alleviated through emergency social funds and emergency employment programs as successfully tried out in Bolivia with IDB support. Bolivia's Emergency Social Fund in Bolivia received support from the IDB as well as other international donors between 1986 and 1990 to mitigate the costs of the 1985 adjustment program. The Fund provided funds for small-scale, labor intensive projects proposed by local NGOs. The projects financed were mostly in infrastructure; they are estimated to have created nearly 41,000 jobs and added 2% to the GNP level over the period. The success of the Fund has served as inspiration to Salvador, Panama and Guyana.

Social reform is a bottom-up process. The Bank cannot be a substitute for domestic efforts but it can and must be a catalyst. A social and political consensus on the need to provide and destine public resources to fight poverty is a pre-condition to enable the transfer of resources from one -powerful- group of the population to another- less powerful. In other words, society's aversion to poverty must be cultivated a task for which the Bank is in an optimal position.

Given its mandate, resources and technical skills the IDB can contribute most to the struggle against poverty and inequality by putting political and intellectual muscle behind national efforts. Better information and analysis is crucial. The IDB should be encouraged to build a data base and an analysis system on the most vulnerable social groups. The system should be capable of producing annual reports on how every country is meeting the needs of its poor, including women and children. Research on the impact of policy reform on vulnerable groups

should be actively promoted. New financing mechanisms will have to be explored to tailor repayment and grace periods to the long gestation periods of social projects and programs.

Implications for the Bank's policies and procedures

1. Institution-building

In most countries in Latin America and the Caribbean today before the amounts for social expenditures can be increased -as a percentage of gross national product - the productivity of the state and public services must be improved. Given the inefficiency of the public sector increasing resources without first investing in institution-building would be self-defeating.

The Bank must be encouraged to keep on moving from the hardware to the software of development. The economic collapse of the debt crisis has left Latin America highly dependent on the policy advice of the donor community. There is a veritable "explosion" of conditionality that now shapes almost all aspects of government programs and which all areas of government must cope with. Borrowers cannot object to performance criteria designed to ensure that assistance is used for the right purposes.

But the explosion of conditionality has posed a new set of problems because public sector capacity to develop and execute projects has been severely stunted by the 1980s crisis. In the conjunction of these two trends, the "explosion" of conditionality and the reduced administrative capacity among borrowers, lies a dilemma. Both programs and projects rely as much on policy content as on the institutions in charge of carrying them out. The final result of projects will be as good or as bad as the available management skills of borrowers. Yet the scarcest factor of production south of the Rio Grande is administrative capacity and it is one that can only gradually be built up.

The Bank needs to pay very urgent attention to the administrative burden placed on executing agencies. Negotiations with all multilateral institutions as well as lending programs are becoming increasingly complex and conditionality more wide-ranging. The result is that scarce administrative resources are spread too thinly to achieve basic development objectives. This bottleneck will become even more tangible into the future as the Bank will increasingly be involved with institutions (both federal and local) in charge of social and local management environmental policies - typically much weaker than the Treasuries in charge of macro

policy. The ability of most countries to effectively manage operations in the social sectors is still limited.

The dearth of sound and efficient institutions throughout the region has several possible solutions. Loans for institution building and technical assistance need to be considered systematically. The improvement of selection, training and skill formation in agencies must be given increased attention. Skills must also be built where they are most needed - in borrowing countries. The success of reforms depends as much on the content of policy as on the institutional capabilities in borrowing countries. These need to go hand in hand.

2. The design of conditionality

Related to the above points a great deal of the effectiveness of Bank operations will hinge on whether conditionality is well designed, sensitive, implementable, and interpreted flexibly.

Although all development problems are related, every project cannot solve them at the same time. The question of development impact cannot be solved by widening the assortment of issues on the agenda. On the contrary, donors should be aware that an overloading of the Bank's agenda is at odds with the capacity of national institutions to deliver.

Over-precision of conditions and excessively detailed formalities assume that all future activities under a project can be accurately predicted.

There is a circular dilemma posed by new types of conditionality under democratic rule. On one hand, to ensure that it is on a secure footing, conditionality often requires passage of laws. Yet the Executive branch which signs the loan contract cannot and should not preempt Congressional approval and assume away the democratic process. Some laws may not pose controversies; some will. In the latter instance it would be wiser for the Bank to include these reforms in the country dialogue and in the broad agreement on policy and institutional reform than tie them to disbursements.

Conditionality must be streamlined. Programs with multiple conditions covering a wide number of agencies and policies and complex institutional designs are sometimes used to incorporate special donor country concerns which have marginal relevance to the substance and quality of a project. Too many sectors, too many conditions, too many laws, too many government agencies become intertwined to fulfill the loan contract. Experience shows that overloading of projects and

intricate conditionality does not ensure that resources are used properly. Neither is project quality guaranteed. Unrealistic conditions may look good on paper and may be accepted by the borrower for financial need, but unfulfillable conditions will either have to be scaled down by the Bank or further tranches canceled along the way. Delays and unfinished programs which could have been prevented from the onset, eventually strain relations and lead to low morale, both among borrowers and IDB staff.

The emphasis of conditionality should be changed from policing to building the skills for implementation. Conditionality must be seen as a continuous process rather than a "one off" action. This has implications for the skills base of the Bank. Much more must be invested in the country dialogue, in knowledge transfer, in technical assistance than in narrowly defined conditions as we have known them. This translates into smaller scale operations than the Bank and the borrowers have been used to.

3. Simplification and decentralization, delegation

The operational efficiency of the IDB has been the subject of controversy for some time. Internal awareness has not been lacking. Two schools of thought have competed to tackle the problems of delays. One advocates that the Bank should stick to unrealistic execution periods because the shorter period puts the borrower under some psychological pressure; the other, that execution periods should be realistic and adjusted to the knowledge of conditions and difficulties that surround projects.

Taking into account the Bank's experience would mean that projects need a 6 to 8 year period for disbursement, which is roughly the same as for other development banks. Fixed standard disbursement periods must be adapted to the state of the art and to genuine project needs to avoid delays. Delays cost money to borrowers increasingly concerned with running healthy fiscal policies. Adaption to the realities and circumstances of different projects would help on the way to de-bureaucratization.

As part of the discussions for the Eighth Replenishment the President of the Bank set up a task force on portfolio management problems of the IDB. The six man task force headed by Mr. Moreen Qureshi became known as TAPOMA. The report found that portfolio management was largely affected by the structure of governance. The Board's mistrust of management to deal with borrowers at arm's length led to a "culture of

control" which has not allowed the Bank to be as operationally flexible as it needs to be.

Over the years the Board has become involved in matters which would ordinarily fall within management's responsibility. While , the Board is heavily engaged in day-to-day business, reviewing the minutiae of loan proposals and subsequent project reformulation, its efforts are diverted away from substantial policy issues.

Over-regulation is pervasive and it undermines efficient portfolio management. Project reformulation without the need for Board approval would be a major step forward; even though projects may be flawless at the start, conditions surrounding the project change and projects need to be adapted. Quality can be enhanced as a project proceeds but the need to resort to the Board for modification acts as a disincentive to be flexible vis-a-vis borrowers' evolving needs or vis-a-vis knowledge gained as execution proceeds. The Bank needs to move beyond the idea that successful projects result from strict application of Bank rules and procedures.

Portfolio management is also heavily influenced by onerous procurement guidelines, reported to be more cumbersome than for any other MDB. Bidding thresholds are uniform as are publicity requirements and there is no flexibility to adapt to local conditions or specific project needs. Even if it is obvious that, for example, no Canadian or Japanese firm will apply to implement a small educational program in Ecuador, the international bidding procedures cannot be waived or even adapted to the size and scope of the operation. Procurement and bidding requirements are known to have caused delays. Loans co-financed with the World Bank, for example, have been slower to get started for this reason.

It is important to act on these findings to pursue the reduction and simplification of conditions. There must be greatly improved delegation to the Bank's network of field offices of authority for determining compliance with general conditions; for providing more direct assistance to borrowers through technical cooperation and institution-building in order to anticipate at an early stage problems in which the borrower has shown recurrent difficulties.

The above has implications for the skills base of the Bank. The "culture of control" has created an aversion to taking risks and has slowed down the process of loan development and approval. It also affects execution. The "culture of control" cannot reward professional judgement adequately. Over-emphasis is placed on compliance with each individual element of policy conditionality, instead of carrying out a general review in which overall performance is assessed. Training and guidelines

to apply a pragmatically encompassing conception of what constitutes compliance have been insufficient. Staff are trained to look for evidence instead of rewarded for their professional judgement, on whether a program is on track. Flexible internal criteria for dealing with cases in which not all conditions are met as originally designed, as well as for separating the soft from the hard end of conditionality, are still being developed. The new criteria must change the balance from policing conditionality to assisting with long term implementation for which technical assistance is badly needed.

The IDB's comparative advantage lies in its degree of specialization and its potential ability to respond to local conditions. IDB field offices can maintain an especially close relationship and rapport with borrowers' needs. But at present field office specialists are not full agents of knowledge transfer. They must be allowed to take a more active role in identifying projects, supporting executing agencies in solving problems during project implementation. For this they need to be relieved of cumbersome minutiae. The staff in field offices devote most of their time to overseeing the execution of loan clauses. Disbursement procedures require that countries submit all invoices to the Bank, a task in the hands of field office staff. Operational procedures need to be greatly simplified. More delegation of responsibilities at all levels from the Board downwards is required. Field Office specialists think that too many issues must be decided by the Operations Division in Washington; operations staff think that too many matters have to be decided by the Board. While substantial delegations have been made, additional delegation can and should be made. Matters such as requests for deadline extensions or changes during implementation for compliance with conditions, commitment of resources, initiation of works, and other aspects of project supervision which take up a lot of time and paperwork for submission to the Board - and which are usually approved- could be delegated at no cost. Substantial delegation could lead to further improvements in the execution of projects and to more initiatives developing from knowledge in the field. A change in "corporate culture" will enhance efficiency and effectiveness of projects and programs.

STATEMENT OF
ROBERT O. WEINER, COORDINATOR
LATIN AMERICAN AND THE CARIBBEAN PROGRAM
LAWYERS COMMITTEE FOR HUMAN RIGHTS
TO THE
SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE,
TRADE AND MONETARY POLICY OF THE
BANKING, FINANCE AND URBAN AFFAIRS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

April 28, 1994

Mr. Chairman, I want to thank you for convening this hearing and inviting the Lawyers Committee for Human Rights to participate. My name is Robert Weiner; I coordinate the work of the Lawyers Committee in Latin America and the Caribbean. Since 1978, the Committee has worked to protect and promote fundamental human rights in all regions of the world. Our work is impartial, holding every government to the standards affirmed in the International Bill of Human Rights. Last year, the Committee increased its attention to multilateral development banks (MDBs), acknowledging the importance of these institutions in promoting human rights. We also believe that the role played by the banks in regard to human rights concerns has not always been benign, in some instances creating or exacerbating human rights problems and in others giving undue support and credibility to rights-violating governments.

The Inter-American Development Bank (IDB) is the subject of today's hearing. I would like to focus my remarks on two areas: 1) the IDB's role in regard to legal and judicial reform efforts in the region and what the U.S. government can do as the largest and most influential member of the IDB to

encourage greater attention to human rights concerns and 2) the agreement on the eighth general replenishment which was agreed to by the bank's shareholders in Guadalajara earlier this month.

1. Legal and Judicial Reform Efforts

Initially, I would like to say a few words about why the subject of human rights is relevant to this discussion. The most immediate reason, of course, is that it is required by U.S. law: Section 701 of the International Financial Institutions Act requires U.S. executive directors to the banks to oppose assistance to any country the government of which engages in a pattern of gross violations of internationally recognized human rights. But beyond legal requirements, human rights concerns are also now recognized as instrumental in achieving effective and sustainable economic development. This is a relatively new development, gaining wide recognition within MDBs only in recent years. In the lexicon of MDBs, human rights have been deemed relevant to development where they relate to a country's "governance," the key dimensions of which are stated to be accountability, information and transparency and a legal framework for development. Joan M. Nelson of the Overseas Development Council has described "good governance" as follows:

[It] requires efficient and honest institutions staffed with well-trained people, enforcing the rule of law impartially and effectively. In order to have honest agencies that serve the public interest, transparency is crucial (including the collection and dissemination of much fuller

information, and a free press). So is accountability (including ways to throw the rascals out). The channels for transparency and accountability require a broad array of vigorous nongovernment associations. A well-developed civil society, in turn, requires not only strong associations but good communications and channels for conflict resolution and growing trust among the varied groups.¹

Focusing on one aspect of governance, there is wide agreement both inside and outside the MDBs that a reliable legal system is an indispensable ingredient in creating an "enabling environment" in which sustainable development, as well as private investment activity can occur. Two World Bank officials, Ismail Serageldin and Pierre Landell-Mills, have written: "There are few aspects of governance on which consensus is more firmly established within the development community than the need for an objective, efficient and reliable judicial system."² Agreement on this principle has resulted in increased attention to and assistance for improvements in the administration of justice by both bilateral and multilateral agencies.

The importance of MDB involvement on these issues cannot be underestimated. As a result of reduced bilateral assistance, multilateral lenders are now the largest source of development aid for many countries. The influence of these institutions on aid recipients, already substantial, has grown even larger. In

¹Joan M. Nelson, "Comment on 'Governance and Development,' by Boeninger," in *Proceedings of the World Bank Annual Conference on Development Economics 1991*, at 292-293 (World Bank 1992).

²Ismail Serageldin and Pierre Landell-Mills, "Governance and the External Factor," in *id.* at 313.

addition, in the 1980s, the banks came to recognize that ignorance of the context in which development occurs invariably affects the success of development efforts; they therefore increased their attention to "non-traditional" issues such as poverty, the role of women in development, the environment and now governance. Having determined that governance concerns are relevant, indeed critical, for effective development, the banks must now pursue a pragmatic and deliberate course in dealing with justice concerns in recipient countries. Activity on these issues will not only contribute to economic development, but will also serve to promote greater equity and justice.

While Latin America has been a proving ground for many administration of justice initiatives in the bilateral sphere, primarily through programs of the U.S. government, the IDB has only recently undertaken activity in this area. The replenishment agreement gives attention to this area of work when it notes in Paragraph 2.37 (h) that the IDB can support government efforts to strengthen and modernize judicial systems. We welcome in particular the last sentence of this paragraph which states: "Bank support should be geared towards ensuring that the judicial system is independent and effective, that it guarantees the rights of citizens, and that it contributes to effective and rapid settlement of disputes."

Over the past year, the IDB has been developing policies and procedures for programs aimed at administration of justice concerns. We have three concerns about this process and these programs which we would like to address.

a) **The Process.** In the course of developing the policy and procedures under which administration of justice programs will operate in the IDB, bank staff have consulted with member governments, technical experts such as the National Center for State Courts and sister development agencies such as the U.S. Agency for International Development, virtually all "service providers." This "supply side" approach has systematically, whether consciously or not, omitted from consideration the views of individuals and entities on the "demand side" of the equation, the domestic consumers of legal and judicial reform. The interested public has not been invited to comment and it is our understanding that there are no plans to invite such comment before the process is concluded. This is not, of course, due to a lack of available expertise on these issues in the region. There are numerous bar associations and non-governmental organizations (NGOs), both legally focused and otherwise, which have wide experience and expertise on the strengths and weaknesses of the justice systems in their countries; the region has a rich tradition of a vibrant bar. There are also regional institutions which could make valuable contributions to this process -- the Inter-American Commission on Human Rights, the Inter-American Court of Human Rights and the Inter-American Institute.

One example of a lost opportunity for valuable input occurred last year when the IDB convened a major conference to explore judicial reform in the hemisphere. Held in San Jose, Costa Rica, in February 1993, the conference was entitled "Justice in Latin America and the Caribbean in the Decade of the Nineties: Challenges and Opportunities." Ministers of Justice and Attorneys General from every country were in attendance. Not invited were NGOs, bar groups and members of the Inter-American Commission. The exception was the presence of Judge Hector Fix-Zamudio of the Inter-American Court.

We understand that the IDB will soon complete a policy paper on plans for its administration of justice efforts. We believe that the IDB's policy in this area should not be finalized without soliciting comment from qualified NGOs, bar groups and legal experts in the region. Regular consultation on these issues and others, will not only improve the programs but will also increase "ownership" of the efforts by the intended beneficiaries and thus, their chances of success.

b) The Program. The Lawyers Committee is concerned that MDB efforts in the area of judicial and legal reform will seek to avoid focusing on areas deemed controversial or sensitive politically, for example by limiting efforts to concerns which only affect the civil rather than the criminal sphere, notwithstanding the obvious need for reform in both areas. It is difficult to conceive of effective judicial reform being done piecemeal -- assisting one part of a legal system while a related

part is permitted to continue ignoring or even trampling basic rights. It is imperative that efforts aimed at improving judicial systems not be "gerrymandered" in this way. Many of the unfortunate aspects of a legal culture -- lack of respect for the judiciary, reliance on influence peddling rather than adjudication to resolve cases, will continue to thwart progress if they are not addressed globally.

Moreover, an approach which targets a segment of the system is not defensible even within the particular terms of MDB discourse. For example the IDB replenishment agreement speaks to a justice system which ensures the rights of citizens. This in turn is part of "good governance" which both seeks and promotes consumer confidence, where the consumers are the citizens who must use and be governed by public institutions. The criminal justice process is what many citizens hear and read about and upon which many base their perceptions upon, remains untouched and dysfunctional, trust in law and government will suffer, regardless of the benefits which accrue to an investor class of litigants.

Equally unsatisfactory are value free, purely technical fixes. Enhancing the efficiency of courts through improvements in procedures or hardware is a laudable goal, but unless speedier management of dockets is organically connected with attention to subservient, scared, corrupt or poorly paid or trained judges, little progress will result.

3. Political commitment. The importance of a government's commitment to reform -- its political will -- to the chances for success of the reform is well-recognized. The IDB replenishment agreement (paragraph 2.10) notes this fact in the context of social policy reform. Given such a direct relationship, the commitment to reform should be a threshold requirement for the consideration of administration of justice initiatives in a country. While often stated, all too often the presence of political will is either assumed or accepted on the basis of words rather than deeds.

A case in point is Peru. After President Fujimori's April 1992 "auto-coup," the judicial system became and remains today a means through which gross violations of human rights are committed. Notable in this regard is the continued reliance on "faceless" military courts to try civilians on broadly-defined terrorism charges without fundamental due process -- the identities of judges, prosecutors and witnesses are not disclosed, rights of cross-examination are restricted, particularly of police agents, and extended incommunicado detention of accused persons is common. While some changes were made by the Fujimori government during 1993 -- for example, the adoption of a new Constitution in November --by and large, they have served to "normalize" the abnormal state of affairs which has

existed since April 1992. The new Constitution ratifies the harshest elements of the extraordinary measures put into place through presidential decrees.³

The U.S. State Department noted in its recent human rights report on Peru serious problems in both the criminal and civil justice systems:

In 1993, the executive branch also dominated the judicial system; hundreds of provisional prosecutors and judges appointed by President Fujimori in 1992 continued in their positions. . . . Most terrorism cases continue to be tried on treason charges in military courts, which lack most of the basic principle of due process. . . .⁴

Persons accused of terrorism must remain in custody while awaiting trial, no matter how little evidence there is against them. During this time, only immediate family members may visit them for a total of 15 minutes a month. Since the antiterrorism decrees took effect in 1992, there were numerous instances of individuals arrested and detained for long periods of time with little or no evidence against them. . . .⁵

There continued to be widespread charges of corruption and of suborning of judges, prosecutors, police, and witnesses at all stages of the judicial process, including the Supreme Court level. The high cost of litigation also limited access to the judicial system, as did the lack of public judicial services in many isolated areas of the country.

Civilian courts made limited progress in tackling the judicial backlog, a projects of inefficiency, lack of infrastructure and personnel, archaic case law and criminal procedure law, and the sharp increase in terrorism cases. According to *El Peruano*, there were 12,268 detainees awaiting trial throughout the country on September 30

³See Lawyers Committee for Human Rights, "Update to LCHR Concerns Regarding Peru's Anti-Terrorism Courts" (March 31, 1994) and "Peru: Lawyers Committee Concerns Regarding Anti-Terrorism Courts and the Administration of Justice Since April 1992" (July 1993).

⁴U.S. State Department, *Country Reports on Human Rights Practices for 1993*, at 529 (Feb. 1994).

⁵*Id.* at 534.

[1993]. According to the Secretary General of the judicial branch, the case backlog in the Supreme Court alone . . . was 8,506; the case backlog for the entire judicial branch was estimated at over 100,000.⁶

The state of affairs calls into question the Peruvian government's commitment to the rule of law. That a highly abusive system remains intact should have adverse implications for all forms of non-humanitarian assistance from donor nations and institutions, and particularly for assistance supporting those very institutions.

In a situation, of which Peru is ut one example, where the State Department has articulated a bi-lateral assistance policy , it is imperative that this policy be reflected throughout the US government. The Treasury Department should not be required to make these calls in a vacuum. We recognize that this coordination among relevant agencies be broadened beyond that which currently exists to meet the basic requirements of Section 701. To ensure proper harmony of our bilateral, and multilateral outlooks, coordination should extend to policy issues.

⁶*Id.*

The IDB Replenishment Agreement

The eighth IDB capital replenishment agreement focuses greater attention on a number of important issues, for which Deputy Assistant Secretary of the Treasury Susan Levine and her staff deserve much credit. The agreement commendably expands IDB operations in social areas, recognizing the need to increase efforts on poverty reduction and social equity if effective and sustainable development is to be achieved. As noted earlier, we also welcome the agreement's recognition of the importance of public institutions, including judicial systems, to development.

Two concerns addressed by the agreement recognize the importance of IDB accountability to affected populations for its activities and decisions. To become more accountable, the IDB must open its processes so that interested groups and persons can have a meaningful opportunity to participate and raise legitimate concerns. A liberalized information disclosure policy which will be an important step in this regard. We look forward to seeing the comprehensive disclosure policy referred to in the agreement which IDB management will be submitting to the Board. While we understand that there will be aspects of the Bank's work that will be subject some need for confidentiality, we hope that the new policy will limit those areas as narrowly as possible.

The replenishment agreement also calls for the IDB to create an independent inspection function to review complaints from affected parties about Bank action. While the agreement does not provide for a specific structure or procedures for the inspection function, we would urge that they incorporate key principles, including measures to insure that:

- the function is undertaken by persons who are independent and impartial;
- there is an ability to raise objections and concerns at all meaningful points in the development process, including prior to Board action;
- that the issues over which an inspection function has potential jurisdiction not exclude through definitional or procedural means key concerns. For example, if the inspection function is made to apply only to Board-approved procedures, policies or activities, it may exclude the bank policy "Strategies and Procedures with respect to Socio-Cultural Issues" which, while guiding important aspects of Bank activity in this important area, is not subject to Board approval;
- the inspection process is an open one with information being made available at meaningful points to complainants and the public generally;
- the function is accorded sufficient resources to achieve its intended purpose; and

- "affected parties" be understood to include relevant non-governmental entities, as contemplated in the replenishment agreement's provisions governing information disclosure.

While the replenishment agreement outlines key improvements in IDB policy and practice on both information policy and the inspection function, the real challenge will be in how the broad principles stated are implemented. We urge you Mr. Chairman and this subcommittee to continue to give your attention to those developments as they arise.

Thank you again for giving us the opportunity to present our views.



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April 28, 1994

Statement of

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on behalf of:

the Environmental Defense Fund, National Wildlife Federation

and the Sierra Club

regarding

the Eighth Capital Replenishment of the Inter American Development Bank,

before

the Subcommittee on International Development,

Finance, Trade and Monetary Policy

of

the Committee on Banking, Finance and Urban Affairs,

United States House of Representatives.

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Mr. Chairman, I am Stephan Schwartzman, senior scientist for the Environmental Defense Fund. I am testifying today on behalf of EDF the National Wildlife Federation, and the Sierra Club, which together have more than 6 million members. I thank you for the opportunity to address recent reforms in the Inter-American Development Bank (IDB) as a result of the negotiation for the Eighth Capital Replenishment, concluded in Guadalajara earlier this month.

Mr. Chairman, I have three main points to make today. First, the US Congress, and in particular this subcommittee, has been the motor of multilateral development bank reform over the last decade. That policies have changed in the IDB (as they have in the World Bank) is a direct reflection of the careful scrutiny of this subcommittee and others, of the bank's operations, and your insistence on the implementation of policy reforms.

Second, your efforts have resulted in recent proposals for a new information disclosure policy and an independent investigation mechanism in the IDB that will greatly increase its transparency and accountability.

Third, various ongoing, as well as potential, bank projects, as well as the imminent bank reorganization, coupled with the past decade of experience with reform in multilateral lending, demonstrate that there continues to be a need for monitoring and evaluation of these institutions. Consequently, while we support the administration's request for authorization for the IDB replenishment for four years of funding for the IDB's soft loan window, the Fund for Special Operations, we strongly urge you to limit the authorization for the Bank's Ordinary Capital for three years, with authorization for the subsequent three years contingent upon a review and evaluation of the Bank's performance in actually implementing the proposed policy reforms. In this way, the Congress can maintain its strong oversight role, to ensure accountability for the US contribution to the Bank, which is now about 30% of the Bank's operations.

The remainder of this statement details both our support for and concerns regarding specific aspects of the Eighth Replenishment.

IDB REFORMS IN THE EIGHTH REPLENISHMENT

The Inter American Development Bank has, in the context of the Eighth Replenishment, made a commitment to increase the transparency of its operations, to widen the scope of citizen participation in its activities, and to establish a mechanism for accountability if citizens are harmed by Bank projects. As this committee knows, the reforms that the Eighth Replenishment outlines are largely a result of intensive campaigning by NGOs around the world; by the active efforts of the US Treasury Department and the US Executive Directors' offices that have promoted public participation and environmental responsibility in the MDBs; and by the efforts of this Committee and others in the Congress who have passed legislation making the US contribution to the Banks contingent

upon environmental, information access and public participation reforms. It is our view that progress has been made and we commend both the Congress and Treasury for your efforts.

These pressures have resulted in an IDB replenishment agreement that includes a number of important reforms and draft policies that we would like to comment on specifically. These include Information Disclosure, the Independent Investigation Mechanism, and the Environment. In addition, we will discuss what we feel is the key to the policy reforms outlined in the replenishment agreement: effective implementation. Finally, we will raise issues related to several current and upcoming projects that could be test cases for measuring the Bank's effectiveness at fulfilling the promise of the Eighth replenishment agreement.

A. Information Disclosure:

Effective development depends on the participation of those communities that are the supposed beneficiaries of multilateral lending. Moreover, meaningful public participation virtually depends on access to information at the beginning of the project cycle. Until now, however, the MDBs have operated in an atmosphere of secrecy that has prevented citizens from obtaining documents related to the development projects implemented in their communities. This Committee has heard countless cases documented by NGOs that describe environmental and social disasters caused by MDB projects that failed to inform and involve communities.

The adoption of the World Bank's information policy last year has begun to pave the way for the other multilateral development banks to adopt their own information disclosure procedures. The IDB has, in the context of the Eighth Replenishment, agreed to adopt an information disclosure policy. Moreover, before the annual meeting of the board of governors earlier this month, the management submitted a draft policy to the Executive Directors for their consideration. This policy has yet to be finalized and approved, although we understand that the Board of Executive Directors are currently reviewing the policy and its approval is imminent.

Overall we are pleased with the policy and support most of the provisions in the draft policy, especially fundamental principles of presumption of disclosure, availability of information early in the process, and the recognition that information is a prerequisite to effective public consultation and participation. The proposed policy recognize that public access to information and consultation with affected people will strengthen Bank projects, and that public understanding of the Bank's work will increase with greater transparency and accountability. And it states that the Bank is a "custodian of public funds" and that it is "indirectly accountable to governments' parliaments and taxpayers." This recognition is essential.

However we believe that there is a major loophole in the policy that does not reflect its principles. As noted, the information disclosure policy fundamentally "presumes that information concerning the Bank's operational activities would be made available to the public in the absence of a compelling reason for confidentiality." The policy then outlines what kinds of information will remain confidential. Included in the provision are many documents which are understandably confidential, including intellectual property, internal financial and administrative information and so on. However, we are troubled by two provisions regarding confidentiality. In the policy, these are: (1) any information that "is identified by that country as being sensitive and confidential; and the member country requests that its release be restricted", and (2) "Other information which the Bank or an individual member country determine to be confidential or sensitive."

These provisions leave the possibility wide open that anything could be declared confidential, thereby undermining the purpose of the policy. We would like to see the IDB policy, and implementing guidelines, define what criteria it will use to determine whether information should be confidential or not. Such criteria would support the principle that information would be public "in the absence of a compelling reason for confidentiality." As it stands now, the confidentiality clause is a significant loophole that undermines the spirit of the policy.

In addition, with regard to documents that are available, we have two comments. First, as to the availability of country socio-economic reports and sector studies, the IDB policy states that:

"If no objections to public distribution are raised by the corresponding member government, copies of the Reports and Studies would be made available" to the public. "In the event that objections are raised to the public distribution of the document, its availability would be determined on a case-by-case basis."

First, this is different than the World Bank's policy which states that these documents are presumed to be available to the general public after Board approval. The IDB's policy may result in restrictions on availability. Second, the current IDB practice on distribution honors requests for access to these documents from international and academic institutions. If the Bank has routinely made the documents available to other institutions, why would they not be similarly accessible to the public? We would like to see this section of the policy strengthened.

Second, regarding environmental documents, the Bank's policy, while making Environmental Impact Assessments and Environmental briefs available, restricts access to Environmental Analyses which are done for Category III projects. The policy states that only summaries of the analyses will be available to the public. We feel that the entire environmental analysis should be made publicly available

in the same manner as environmental impact assessments. By comparison, under the World Bank information policy, these documents are public.

The policy does not establish user fees but allows that they will be collected to offset the costs of maintaining the information facilities. We would recommend that as a first priority, the general public and NGOs be given free access to the bank's information. If the Board determines that fees need to be charged, we would recommend that they be charged to private firms and donor country users, but not to citizens and NGOs in borrowing countries. The charge will be an enormous obstacle to citizens and NGOs, and would undermine the spirit of the policy, which is to make information accessible to the public.

Finally, the most critical aspect of information disclosure is how the IDB implements the policy. It has been the unfortunate and widespread experience of NGOs in Latin America and the Caribbean that it is easier to obtain information from NGOs or bank staff in Washington, than in the field offices or from staff or consultants on site, even if the information being sought has not been considered confidential. The culture of secrecy needs to be changed fundamentally, and mechanisms need to be put in place that ensure that information is available in a timely way, is accessible to citizens that do not have the benefit of technical training, and that it is seen as part of a process of participation, but not the only part.

We recommend that when the Bank does adopt its information policy, that it also make a commitment to consult with NGOs to develop effective guidelines and mechanisms for implementation.

B. Investigation Mechanism:

We welcome this policy reform and for the most part support it. Our concern has to do with how the Bank defines "affected parties", eg those individuals or groups who will have standing and hence the right to present a request for an investigation.

First, the proposed policy states that "The Bank shall receive requests for investigation presented to it by an affected party in the territory of a borrower/recipient." However, those directly affected might be in another territory other than that of the borrower/recipient. In other words, the policy should address transboundary environmental damage. Those affected by Bank projects in countries other than that in which a project is carried out should have the right to present a claim. An example would be a hydroelectric dam constructed in Country X which could have significant downstream impacts in a community or an area downstream in Country Y. We believe that it must be made specific that affected people or public interest organizations in Country Y --which may not necessarily be a borrower/recipient-- should have the right to present a complaint.

Second, the proposed policy defines an "affected party" as a "community of persons such as an organization, association, society or other grouping of individuals. The affected party must offer reasonable evidence that its rights or interests have been or are likely to be directly and materially affected by an action or omission of the Bank..."

We would like to propose that the IDB define affected group in a more broad sense, given that the legal right to stand in front of a court or other grievance resolution mechanism in many environmental matters has been extended from the tradition "person (s) aggrieved" to have "representative standing" -- that is, those who represent the directly affected, to the more inclusive "citizen standing" whereby citizens or citizens groups can present a grievance in defense of broad environmental protection concerns. For example, the loss of biodiversity, or the contamination of air or water by the development of a particular project may not directly affect a specific group, yet it might affect society as a whole. We believe that organizations of civil society whose purpose is it to safeguard the environment or other public interests, should have standing to present a case.

C. Environment:

We fully support the conditions in the Eighth replenishment that

- (a) recognize that the bank must deal with global as well as local environmental impacts;
- (b) integrate environmental considerations into both project and sector loans;
- (c) ensure that its environmental guidelines apply to operations in areas that have not been well covered in the past, including agriculture, transportation, watershed management and extractive activities and mining;
- (d) make a commitment to update the IDB's environmental guidelines through a process of public consultation.

The Bank's current environmental procedures and guidelines are for the most part old and outdated. By both updating them and applying them to project and sector loans, the Bank will vastly improve the environmental quality of its lending. We would like to recommend that in the process of updating its policies, the Bank work with NGOs and environmental experts to establish effective procedures for consultation that will ensure that the guidelines are developed with quality input from a wide representation from civil society.

We also support the commitment to focus on energy conservation and efficiency in Bank lending, and to promote energy efficiency in industry and transportation

sectors. However, we believe that in order to achieve energy conservation and efficiency goals, that the Bank needs to develop an energy policy that will detail parameters for developing and implementing energy projects that reflect the Bank's objectives in this area, including the broad goal of taking into account the global effects of Bank projects (for example global warming and ozone depletion). If energy development is to remain an important sector of bank financing, the elaboration of an energy policy will help to ensure that operations in the energy sector actually reflect the Bank's Eighth Replenishment commitments. Finally, we recommend that the Bank develop its energy policy in full consultation with NGOs in the region and internationally, experts in end-use efficiency and conservation, and other relevant sectors of society.

We support the Bank's commitment to develop and implement guidelines on water resources management. First, we believe that guidelines should have the force of policy, and second, we recommend that the development of the policy should be done in consultation with NGOs in the region, internationally, experts in water resources, and other relevant sectors of society.

One of the issues that NGOs have long been concerned about is the widespread destruction of primary tropical forests. We are pleased that the Eighth Replenishment recognizes the importance of intact tropical forests, and that the IDB will work with governments to actively commit to conservation and sustainable forest management. We fully support the provision that states that "the Bank does not finance commercial logging in these forests, nor the purchase of equipment for such purposes."

D. Public Participation:

In the text of the Eighth Replenishment Agreement, there are references to public participation that emphasize the Bank's commitment to this concept. For example, in the Environment section under Information, the Bank "expects the borrowers to conduct consultation processes, for all projects which may have a significant negative impact, that are designed to elicit informed opinions from affected communities and other local parties that have a legitimate direct interest in an operation." It then notes that the Bank will strengthen its existing guidelines in this area.

However, apart from the reforms on information disclosure and investigation mechanism, the Eighth Replenishment does not set specific mechanisms for increasing and improving citizen participation processes in the development of its projects. Information disclosure and an appeals process will not alone guarantee that effective participation will take place. The Bank has demonstrated that it can foster meaningful and effective participatory processes that bring together representatives of NGOs and social movements, government officials and Bank staff. We would like to elaborate on one project that could serve as a model for the Bank in other areas of its operations.

1. Brazil: Porto-Velho-Rio Branco Road Improvement Project

The IDB's ongoing experience in the environmental component of this project is a benchmark in the active involvement and direct participation of affected populations in development. The IDB has, in this project, set the standard by which all other MDBs, and other IDB projects, should be judged with respect to transparency and consultation with local NGOs. It shows that in difficult situations, when there is political will, the MDBs can get it right.

In 1985 the IDB approved a total of \$58.7 million in two loans to pave 502 kilometers of road between the Amazon capitals of Porto Velho and Rio Branco. The loans included \$10 million for the Protection of Indigenous Communities and the Environment (PMACI). The road threatened to greatly increase migration, deforestation, and the invasion of indigenous areas, as well as put pressure on the forest-swelling rubber tappers of Acre state. In 1987, after rubber tapper leader Chico Mendes denounced the effects of the projects, and the government failed to comply with loan conditions, the IDB (pressured by the US) suspended disbursements. The IDB then held an unprecedented negotiation between government agencies and local Indian, rubber tapper and environmental organizations, and required an agreement on how the environmental component was to work as a condition of restarting disbursements. Among other results, the negotiation forestalled a military plan to greatly reduce indigenous lands in the project area. Subsequently, the IDB convinced the federal government to transfer responsibility and funds for much of the PMACI to local agencies and NGOs.

As a consequence, the IDB is now supporting the most innovative work in the region in creating sustainable economic alternatives for rural people, including increasing local processing for forest products, popular education for Indians and rubber tappers, and the demarcation of extractive reserves. The IDB, NGOs and the government agree that this dialogue and collaboration has greatly increased project quality.

Contrasting this success story in participation are, unfortunately, other examples where the lack of participation is impeding progress in important Bank projects.

2. Mexico City: Ecological Conservation in the Metropolitan Area of Mexico City

The Mexico City Metropolitan Area, one of the largest urban concentrations in the world, has long experienced unplanned growth coupled with great environmental problems. Rapid urban growth has meant the expansion of developed areas within the Valley of Mexico and to the ring of mountains that surround the city, resulting in a marked deterioration of the environment. Loss of vegetation cover, soil erosion, and air pollution have reduced the quality of life for the city's inhabitants.

To deal with some of these problems the IDB recently approved a \$100 million loan to the Mexican government, in an innovative debt swap deal whereby the loan funds will be used to buy foreign debt in the secondary market, and local currency will be applied to partially finance the project's Mexican financing, or recurring costs.

One of the project's objectives is to rescue and preserve the ecological zones of the Sierra de Santa Catarina and Guadalupe Hills in relation to urban growth; and to improve the living and environmental conditions of the human settlements in the worst conditions in the hills. The project calls for revegetation and reforestation of some 2,900 hectares.

These areas have been settled for 20 to 30 years, and are currently inhabited by nearly 336,000 people who have been or will have to be removed. This community is well organized into the Social Front in Defense of the Santa Catarina Hills, consisting of some 21 non-governmental organizations, associations, neighborhood organizations, unions etc. Their purpose is to plan a sustainable development program for the Hills.

The community organizations as well as several NGOs have repeatedly reported that the citizens of the Santa Catarina have not been consulted prior to approval of the IDB project. They were not even informed that the project was being planned, much less taken part in any decision making process. Specific information about the project was only obtained when a representative of the Social Front travelled to Washington in October of 1993 and met with Bank staff.

The citizens of the Santa Catarina have no objections to the concept of a project which will tackle the enormous environmental and social problems in the Mexico City Metropolitan area. They view such a concept as a positive step in the improvement of living conditions in the city. Nonetheless, they have strongly opposed the form in which this project was developed. The citizens argue that the IDB as well as the Mexican authorities view this as a conservation project to the exclusion of those people who actually live there. They believe that to create a forested area and remove the inhabitants that have been living there for several decades is not sustainable development. Moreover, they have developed their own plans to integrate the dwellers of the Sierra de Santa Catarina in a development project that would allow them to continue to live in the area in a socially equitable and ecologically sustainable manner. They have plans for agroforestry and reforestation, community gardens, watershed management, environmental education and community development, which have to date not been acknowledged by the relevant IDB and Mexican government authorities.

While the citizens of Santa Catarina face eviction from their homes instead of participation in a project that could accommodate society and the environment, the project ironically allows the continued operation of quarries in the very area that the Bank wants to "restore", which are causing soil erosion and particulate

pollution.

3. Decontamination of the Tiete River, Sao Paulo, Brazil:

The Tiete River project, for which two loans were approved in 1992 totalling \$450 million, is potentially an example of the kind of project that the IDB (and the MDBs in general) should be financing. The Tiete provides water to the metropolitan Sao Paulo area, and as a result of largely uncontrolled urbanization and increased residential and industrial pollution has become contaminated to the extent that the water supply of some 20 million people may be compromised unless urgent measures are taken to decontaminate the river.

The loan supports sewage collection networks and treatment plants, as well as training and institutional strengthening for the pollution control agency in Sao Paulo. The project, proposed by the state government of Sao Paulo, was in fact the government's response to a massive public campaign, including the collection of over a million signatures on petitions, organized by environmental groups specifically to reverse the degradation of the river. The state government, in meetings it requested with NGOs, argued that it was consulting closely with citizens' organizations on project planning. However, once the project was approved, consultation with the public ceased, and NGOs in Sao Paulo were completely denied access to information on the project.

Even within government, a small group of bureaucrats are said to exercise exclusive control over the project. Local NGOs have for example requested information on the bidding through which the project works were awarded and were refused. Meanwhile corruption scandals over state and federal public works have hardly been out of the headlines of Brazilian newspapers in the last two years. Clearly, NGOs and citizens in Sao Paulo have a stake in how the project is implemented. If the IDB cannot ensure greater public access to information and effective consultation with local NGOs, the IDB's single largest project runs the serious risk of repeating the errors and gross inefficiencies of previous, unsuccessful Sao Paulo water projects with similar goals.

There are also projects on the horizon that we urge the Congress to monitor as possible test cases for implementation of the Bank's replenishment commitments. True progress can only be measured by a demonstrated improvement not only in information disclosure and participation, but in the kinds of projects that the Bank chooses to fund. The proposed Hidrovia Project in South America is a case in point.

1. Hidrovia: In 1991, the IDB prepared a \$7.5 million technical cooperation for feasibility studies for construction of a permanent, year round waterway along 3,400 km of the Paraguay/Parana Rivers. The technical cooperation includes technical, financial, socioeconomic, legal, institutional and environmental studies which are scheduled to get underway this year. Known as the Hidrovia, this

potential multi-billion river navigation project could cause disastrous environmental impacts in the second largest river system in South America, the La Plata Basin, and the world's largest wetland, the Pantanal.

The Hidrovia will accelerate development in the La Plata Basin, including agriculture, forestry, mining and industry, which will increase water pollution from agricultural chemicals, untreated industrial effluents, solid waste and sewage. It will increase deforestation, desertification and loss of biodiversity from expanded agriculture and pine plantations; and put greater pressure on all of the region's resources by increases in population. Indigenous populations, already under stress from recent development in the region, will be further pressured by changes in land use patterns, land tenure and in-migration.

Currently, the only economic justification for undertaking the Hidrovia is the 1992 study by the Brazilian firm Internave. A recent, and detailed, analysis prepared by a World Wildlife Fund Brazil consultant shows that the project is "absolutely unfeasible from an economic perspective" and that initial cost-benefit calculations are based on grossly exaggerated projections of agricultural productivity in the region. The question the WWF Brazil report raises is, "Why is the IDB financing engineering and environmental studies at all, since the project is economically inviable."

Many NGOs and citizens in the five-country area of the Hidrovia are extremely concerned about this project and its likely environmental and social consequences. They are looking to the IDB to provide information, to conduct a thorough and scientifically based environmental impact assessment, and are expecting a meaningful public consultation process. This project may well be an important test case to evaluate how well the Bank implements the reforms of the Eighth Replenishment.

2. Pan American Highway, Darien Gap, Panama, Colombia: For years, there have been discussions between the Government of Colombia and the Government of Panama to complete the Pan-American Highway, which would build the last link in a road system connecting South America with Central America. Currently, there is a natural forest barrier between Colombia and Panama at the Darien Gap. Recently, the two governments created an international commission called Colombo-Panamá to supervise studies to verify the borders of each country and conduct environmental impact studies to determine possible routes for the possible future completion of the Panamerican Highway.

The Darien Gap is currently an intact forest, and is critical for ecosystem conservation, watershed protection, and prevention of the spread of hoof-and-mouth disease from South America into Central and North America. The Darien Gap has also been designated as an internationally recognized biosphere reserve under the UN Man and Biosphere Program.

Moreover, the Gap is home to legally recognized traditional Embera, Wounaan and Kuna indigenous people, whose lives and cultures depend on an intact ecosystem. These indigenous communities of the Darien Gap are recognized by the Panamanian Constitution, and the law requires their participation in the development of projects that affect their traditional territory. The communities recently formed a Commission to protect their rights and territories, and to oppose development of the Panamerican Highway through their lands. They are especially concerned about the involvement of the Inter-American Development Bank in carrying out feasibility studies and environmental impact studies, because neither the local indigenous Peoples, African-American communities and farmers that live in the Darien Gap have been consulted.

Summary: Participation and consultation must be a permanent and ongoing process; it should not be treated as a one-time event that Bank task managers can "do" and then mark the appropriate box in their checklist. It is clear to us that, while the Bank has the willingness and now a political commitment to improve its consultative processes, there is much room for improvement, not only of its own performance in this area, but in promoting citizen participation with its member governments.

We would like to recommend that the Bank work with and consult NGOs, social movements, and academics in Latin America and the Caribbean, to develop guidelines and concrete mechanisms for promoting effective, meaningful and widespread public participation in operations that it finances. Such a process would need to include discussions to answer the following questions:

- (a) what kind of information do citizens and NGOs need, and at what stage is it needed, in order for them to make informed judgements about proposed development projects?
- (b) How can NGOs, indigenous peoples and citizens propose their own development projects and/or integrate self-development with Bank operations?
- (c) What are effective ways to involve groups that are often at the margins of society and that have traditionally been left out of development decision-making -- ie indigenous peoples, women, and so on?
- (d) What kind of training do the relevant actors -- the Bank staff, NGOs, other sectors of civil society and governments -- need in order to carry out meaningful consultative processes?

We believe that such a process will likely result in an improved understanding within the Bank of the ways in which various actors can and want to participate in the Bank's activities. Such a process would help the Bank translate its rhetoric into reality, it would underscore the importance the Bank places on increasing the transparency and effectiveness of its operations.



REORGANIZATION

Bank management is studying a proposal for reorganization, which we understand will go forward in one form or another in the next few months. The proposal, which we have not seen, apparently aims to restructure the Bank into three regions, which would decentralize operations along regional as opposed to sector lines. With respect to environmental concerns, it is critically important that the IDB not lose its unique institutional advantage in dealing with environmental and social issues in project design.

At present, the IDB's Environment Management Committee (CMA) constitutes a high-level locus of accountability for these concerns, and with the technical backup of the Environment Division, can function as a screen for the worst problems before project approval. It would be deeply counter-productive should the IDB, in pursuit of a more streamlined operation, dilute the authority the CMA and the Environment Division, which together offer the possibility of effective quality control over projects. It is also important to note that while streamlining may be in order, as the Bank moves into social-sector lending, it will need greatly increased professional staff in the social (anthropological, sociological and grassroots development) area.

CONCLUSION

This subcommittee, with the collaboration of the Treasury Department and important forces within the IDB, has begun a critically important reform process in that institution. We urge you to continue your oversight role which will continue to be important in monitoring the implementation of the reforms of the Eighth Replenishment. And we ask that you authorize US funds for the Ordinary Capital for no more than three years.

ISBN 0-16-047235-0



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